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HENRY HAZLITT

You Cannot Trust Governments with Your Money

SOMETHING is happening today that has never happened before in human history. Every country is inflating. In each of them prices of practically everything have been rising every year.

This is another way of saying that the buying power of the currency of each of these countries has been falling every year. As each country has been inflating at a different rate, the buying power of its currency has been falling at a different rate.

According to a recent compilation by the First National City Bank of New York, in the 10 years from 1962 to 1972 the American dollar lost 28 per cent of its purchasing power, the German mark 27 per cent, the French franc 35 per cent, the British pound 38 per cent, the Japanese yen 43 per cent.

When we turn to what happened in some of the less-developed countries, the case is much worse. In the same 10-year period the Peruvian currency lost 60 per cent of its purchasing power, the Argentinian 90 per cent, the Brazilian 96 per cent.

If we carry the comparisons back 25 years instead of 10, the loss of purchasing power is even greater. In the 24 years between 1948 and 1972, the American dollar lost 43 per cent of its buying power. And this was one of the best records of any currency in the world. In the same period the

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currencies of Argentina, Brazil, Uruguay and Chile all lost more than 99 per cent of their buying power. In other words, they all bought considerably less than 1 per cent of what they bought in 1948.

If we carry our comparisons forward instead of back, we find no cause for rejoicing. In the period 1948 to 1972 the median rate of depreciation of 24 leading currencies was 4 per cent a year. In 1973 this median rate almost exactly doubled, to about 8 per cent. Consumer prices in the United States in the 12 months ending February rose 10 per cent, the first "double digit" inflation here since the Korean War 23 years ago.

Savings Depleted

I leave it to the reader to translate these figures into the deprivations and tragedies they have meant for millions of families throughout the world whose income has not yet begun to keep pace with these soaring prices.

Included in this total, of course, are the millions of the aged, the buying power of whose pensions and savings in many countries has been reduced to a vanishing point. Briefly and bluntly, practically every government in the world has been progressively swindling the majority of its own citizens.

What is more alarming is that a great section of the press and even many so-called economic experts are beginning to talk as if inflation were nobody's fault, but some mysterious and perhaps incurable disease.

Time magazine, in a long cover-story on world inflation (April 8), compares it to "some medieval plague." It speaks of "the uncomfortable feeling that no one quite knows what to do about inflation." "The experts themselves," it goes on, "are not immune from this despair. In the U.S. John Dunlop, head of the Cost of Living Council, asserts: 'I don't believe it is clear that mankind today knows how to control inflation.' "

Defeatist Attitude of Trying to Live with Inflation

One could cite much more "expert" opinion to the same effect. A few weeks ago Prof. Henry Wallich, the new appointee to the Federal Reserve Board, declared that inflation is very complex and has many causes, and therefore the measures to be taken are at best difficult. Even Prof. Milton Friedman, who in the past has written some excellent articles on inflation, now seems ready to throw in the sponge. He proposes in effect that if we can't lick inflation, let's join it.

On a recent trip, Prof. Fried-

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man was impressed to find that Brazil has introduced escalating clauses into wage contracts, interest rate agreements, and so on, and yet has been able to reduce the inflation rate from about 30 per cent in 1967 to about 15 per cent now, and "without inhibiting rapid growth." So why shouldn't we try the same thing?

I find it astonishing that the U.S. should be asked to take lessons in reducing inflation from a country whose average rate of currency depreciation over 24 years was 56 per cent *a year*, a country at a low stage of development, where the wage level is about one-eighth that in the U.S., and where the government is a military dictatorship.

A revolutionary innovation of this nature should hardly be based on an impressionistic snap judgment. Ronald A. Krieger, professor of economics at Goucher College, who has made a careful study of Brazil for the First National City Bank, is more than skeptical of the advantages of the plan. When Brazil introduced 100 per cent "indexing" in 1967, he says, the inflation rate began to fall much more slowly than it had before.

Putting aside debate about the exact details of what has happened in Brazil, the most likely effect of truly protecting everyone from inflation, if we could do it, would be to remove the pressure on the government to halt inflation or to slow it down. Certainly the first effect would be to accelerate inflation.

How Escalators Work

Let us take a hypothetical case. Suppose in a given year both prices and wages in Ruritania have gone up an average of 10 per cent. Assume for simplicity that the average wage rise was distributed about as follows: the wages of 5 per cent of the workers have gone up 1 per cent, the wages of the next 5 per cent segment have gone up 2 per cent, and so on up to the highest 5 per cent whose wages have gone up 20 per cent.

The over-all average rise is then about 10 per cent, but the wages of half the workers have only gone up an average of 5 per cent, while those of the upper half have gone up an average of 15 per cent. It is then decreed that the wages of the lower half shall all be raised to the over-all average rise of 10 per cent. But when this has been done the over-all average wage rise becomes 12.5 per cent. In order to make this increase payable, the money supply must be pumped up further. The same arithmetic applies to any other element of cost.

The U.S. already has such escalator provisions to a certain ex-

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tent; but they are more to be deplored than applauded. They exist in some union contracts, in Social Security payments, in government pensions, and in food-stamp benefits. Their effect in each case is to reduce the opposition to inflation.

Still another result is to throw index numbers into politics. The U.S. Labor Department wants to increase the number of items in the Consumer Price Index, but union leaders are fighting a broadened index because it "might tend to show less inflation than the present one," and hence mean smaller automatic wage increases under their contracts.

In brief, insofar as such an escalation scheme is applied, it must increase both the political and economic pressure for inflation. If, for example, wages are to be forced up by a fixed percentage, which, however, can be easily passed on in increased prices, then employers no longer have either the power or the incentive to hold down costs, and workers lose the incentive to increase productivity.

It is in fact impossible to apply such "indexing" universally. It cannot be applied to the money in people's pockets, or in their checking or savings accounts, or retroactively to private pensions. The chief victims of inflation, the old and retired, will be more victimized than ever.

Coercive Economy

The only way of trying to universalize the system is by government ukase, a coercive command economy compared to which ordinary wage-and-price controls look almost like economic freedom. No true believer in the free market could seriously contemplate such a system. It could be prevented from disrupting production only by making sure that wages were consistently raised less than prices — a proposal which, once candidly stated, would be unlikely to find acceptance in a democracy.

Finally, such a totalitarian scheme is altogether needless. There is no mystery whatever about how to halt an inflation. The cure is for the government to stop increasing the supply of money. Period.

The real problem is not that governments don't know how to stop inflation, but that they don't want to. Their excuse is everywhere the same. If they stop printing money, they say, they will plunge their country into a recession or even a depression, and into an "unacceptable" degree of unemployment.

And we cannot say that they are wrong. For the level of prices and activity at any given moment is not determined by the existing supply of money, but by what speculators and businessmen ex-

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pect it to be in the future. Their expectations are usually built upon the past rate of inflation or even its past rate of acceleration. And when these expectations are disappointed by a halt in the increase of the money supply, or even a slowdown in the rate of increase, there will be a fall in some prices and a fall in some branches of activity.

But there is no way in which this consequence can be avoided. It can be postponed, of course, but only by building up to a far greater ultimate disaster.

And the decision to plunge ahead acceleratively is the one that politicians everywhere have decided to take. *Après nous, le déluge.* But let's leave the deluge to our successors. Let's prolong our own tenure in office as long as we can, by keeping this thing going. Let's express our heartfelt sympathy with the victims, of course, but profess our inability to do anything about it.

The mistake is not to stop inflation, but to have started it in the first place. The politicians (and, alas, the majority of the rest of us) have kept it going because of the false theory that monetary inflation is necessary to secure and maintain full employment. What we have not realized is that once we embark upon this course, the inflation must be accelerated exponentially in order to have the same stimulating effect. The inflation must always exceed expectations, whatever they are.

The ultimate result can only be a smash-up.

Full employment can only be maintained by a proper coordination, brought about by free markets, between prices and wages. This means between specific prices and specific wage rates. We have prevented this by wage laws and labor laws which force individual employers to pay excessive wage rates. Then we try to cure the damage we have done by the mass remedy of chronic inflation.

To repeat: There is no problem at all about how to stop an inflation. The government must merely stop adding to the money supply.

The real problem is not economic but political. It is how to get the government to stop. There are few if any cases on record of a government for very long refraining from the issuance of more currency when it was not under the necessity of making that currency convertible into gold. (Or silver, or at least something else that cannot be increased by government fiat.) Therefore the present writer has been among those who have believed that inflation will never be permanently stopped without a return to the full gold standard.

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But in view of political developments of recent years, above all of the cancerous growth in practically every country of the leviathan Welfare State, even gold-standard advocates are now forced to ask themselves: Will even this be enough?

Suppose we could succeed in having the gold standard restored? How long, given present ideologies, would the government keep it? England abandoned the gold standard in 1914, and again in 1931. The U.S. abandoned it in the Civil War, again in 1933, and still again, even though we had it in a very diluted form, in 1971. Governments everywhere have now broken faith too often. It may be a long, long time before people again have confidence in any of their monetary pledges whatever.

Right to Own Gold

But the situation is not hopeless. There is one small reform that could do a great deal to restore monetary confidence and order. This would be simply for governments (and specifically our own) to restore to their own citizens the right to hold gold, to buy and sell gold, and to make contracts in gold.

Such a simple reform — the mere removal of a 40-year-old prohibition — would accomplish several things at a stroke. It would provide a medium by which our citizens could protect themselves to some extent against the further ravages of inflation.

If private citizens had the right to make contracts in gold, gold would then become a *de facto* money, in both domestic and international trade, whether legally "monetized" or not. It would not necessarily follow that gold itself would be used in every such transaction. Contracts might merely provide that a due date payment could be made in paper dollars or in any other currency, but in terms of the market price for gold on the day of settlement.

Such a private currency would be an enormously better protection against inflation than any set of arbitrary indexes or escalator clauses. It would be a step toward freedom, instead of still more government coercion.

It would have still another advantage. As inflation continued, the various paper currencies would go to a greater and greater discount against the new private gold currency. This would daily emphasize that continually rising paper-money prices were not the result of greater and greater greed on the part of sellers and producers, but merely of the increasing worthlessness of the money. That might be the real beginning of reform.

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BUSINESS AND ITS IMAGE

V. ORVAL WATTS

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A companion volume, *Politics vs. Prosperity*, is currently being produced, to be available later in 1974.

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FORTUNATELY, Americans seldom think and act from day to day as they often vote at election time. The votes are sufficiently serious in their effects. Cast in great numbers, again and again, they give political power to would-be Robin Hoods and Dragon Slayers who denounce businessmen, especially successful, "big" businessmen, as "princes of privilege," indifferent to the welfare of their fellow men and interested only in quick, personal gains, no matter how obtained.

On non-election days, however, Americans show amazing confidence in business, even – or perhaps especially – in big business. They buy from the shops and stores, including the biggest, eagerly and happily; and they display great indignation if a purchase fails to perform according to the businessman's promises, as though this were so unusual that the seller must "make it right" – as he usually does. Similarly, they apply for jobs and appear to be particularly pleased and proud when they get a job in a big concern. They entrust their savings to banks, insurance companies, and many other kinds of businesses; and in this, too, they appear to prefer to deal with the bigger concerns.

In short, most Americans – like the people of other countries with certain capitalistic traditions and large remnants of business freedom – know from experience that business enterprises help them get a large and essential part of what they want in life. They know it as humans knew, long before the apple fell on Isaac Newton's head, about the effects of gravity.

Still lacking, however, is sufficient understanding of business operations in free markets to protect them from political witch doctors who cause worse maladies than they promise to cure.

What "Business" Means

We use the term "business" in many ways. It may mean any type of work, occupation, or profession. But when we speak of a business course or business college, or refer to the business office of a factory or university, we use the word in a much narrower sense; and it is in this restricted sense that business is "controversial."

In this narrow meaning of the word, business means buying and selling – the marketing of commodities and services. In this sense of the term, little Sally engages in a business transaction when she gives her dime to the store clerk in exchange for a candy bar. When we say that the successful American farmer must be a good businessman as well as a good farmer, we mean that he

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must know his markets; he must watch his costs and prices as well as soils and fertilizers; and he must adapt his operations to changes in market conditions as he does to changes in weather or new invasions of bugs and bacteria.

As a specialized occupation distinct from farming or industry, education or politics, business carries on the marketing operations: advertising, selling, banking and credit management, speculation, and accounting.

The specialization is seldom, if ever, complete. A merchant, for example, may carry on the work of transportation by employing truckers and delivery men; and trucking companies must help market their services by advertising. Similarly, every mechanic, engineer, teacher and scientist must engage to some extent in business – in buying and selling.

Buying and selling, of course, are merely two ways of looking at the same transaction, and as we shift from one side to the other, we complete our exchanges of goods for goods. These exchanges are the aim, or purpose of all commerce, or business. A wage earner sells his services for money; then he uses the money somewhere else to buy commodities and services from grocers, shoe stores, dentists, or the teachers of his children. By using money we can split every exchange of goods into two stages, and we can complete the second stage (buying the goods we want for our work) in places far removed from the place of the first stage (selling our own services or products), and we can complete that second stage with many different producers or their commercial agents.

By using money, therefore, and learning to buy and sell, we increase enormously our opportunities for completing exchanges conveniently and economically.

Essential For Peace and Progress

In fact, without money and the "money-making" specialists we call "businessmen," the high costs of exchanges by barter, trading goods for goods, would make division of labor and exchange impossible except in very simple forms within a small group, such as a family or clan. For this reason, communities whose members do not learn to buy and sell for money remain small, isolated, and poor, holding lands which commercial groups do not want or grant them for a time for charitable reasons.

Conversely, as people learn to buy and sell, and to respect one another's rights to conduct their business transactions free of molestation, they can obtain the ap-

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parently unlimited advantages of the division of labor.

Now, division of labor (specialization) and exchange of the products are two aspects of cooperation. They are as inseparable as two sides of a coin. We can't have one without the other.

And cooperation is generally supposed to be the way of peace and progress.

Why, then, are the business specialists, who promote the exchanges necessary for cooperation so often held in less esteem than the farmers, engineers, industrialists, doctors, and politicians whom they serve?

Sometimes, it is true, requests for cooperation turn out to be proposals for someone to give or serve without return. Such a one-sided arrangement is an operation, not cooperation.

Cooperation means working together, a pooling of effort for mutual benefit. In this sense of the term, cooperation is necessary for human progress.

But if we are to cooperate, we must bring together and distribute our products and services. We should suppose, therefore, that those who specialize in promoting and arranging this pooling and distribution – the businessmen – would stand high in public esteem as promoters of human progress.

Consider some of the leading activities of the business world:

1. *Market study.* Businessmen study what buyers want, what they may want in the future, what may be useful to other persons, what producers can supply, and how producers may supply at the least cost what buyers most want.

2. *Promotion and investment.* Businessmen persuade producers to exert effort; they persuade savers to supply capital; and they guarantee payments as inducements.

3. *Selling.* They inform potential buyers (most of whom are producers in one way or another, or dependents of producers) as to what is available for purchase, and tell them how the goods may be enjoyable, useful, and beneficial.

4. *Accounting.* They keep records of their operations in terms of money as a means of comparing costs and selling prices, and they use these records to help them plan their future operations.

In performing these operations, individuals find unlimited opportunities to use and develop any and every human talent – talents for research, invention, and discovery, talents for knowing and explaining, talents for speaking and writing, talents for understanding, appraising, and persuad-

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ing other persons, talents for solving problems and making difficult decisions.

Honesty Pays in Free Markets

To win the cooperation of others, as business enterprisers must do, the first trait required is that of integrity: keeping one's promises, punctuality, paying one's debts, and speaking the truth. For cooperation continues only where there is mutual trust, and trust requires that individuals be trustworthy as well as trusting.

Business success also requires fairness, ability to do justice; and the greater the individual's success in winning promotion or building his own business, the more important becomes this sense of justice and the strength of character necessary to act justly. This requires intelligence and understanding, for the just man must perceive the indirect and long-run effects of his decisions and acts, so that he will not give a favor to one person at the expense of less than justice to another.

Opportunities for success, of course, provide equal opportunities for failure; and individual failures to understand and take advantage of the opportunities and rewards for right conduct exist wherever we find human beings. Fraud, weakness, and injustice appear in business as they do in education, politics, family life, and church activities. But in freedom, the failures are penalized; weaklings and the unjust are held accountable as customers, creditors, suppliers, associates, and employees are free to withdraw their cooperation and form new business relationships with the more efficient, prudent, and wise.

Business enterprise in arranging, stimulating, and guiding cooperation through exchanges in free markets has been therefore, the foundation or wellspring of human progress in every conceivable way. Humans rise from animal levels, in character and ways of living, as they abandon violence as a means of getting what they want from their fellows and turn to the ways of peaceful, voluntary exchange. And these are the ways of business.

Why, then, should the specialized activities we call business be a principal target for attack by intellectuals and politicians in all eras and nations?

No one can supply the final defense for any social institution, however, necessary or useful it may be. Humans will continue to doubt and challenge because they seek to know, understand, and learn. Skepticism helps keep within tolerable limits the useless and uneconomic experiments of curi-

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ous, fallible humans. Every human advance brings also new problems, new abuses of opportunities, and new deficiencies of understanding; and these problems, abuses, and gaps in our knowledge give rise to denunciations even of progress itself and the ways it comes about.

Business institutions and practices are no exception. They must always be subject to continuing study and criticism to correct abuses of new opportunities so that the way may be cleared for new advances.

Therefore, I shall list only a few of what appear to me to be the more dangerous and enduring misconceptions concerning business in general, and suggest answers that may warrant special attention.

(1) The Technological Concept and it's Implications

Technicians with little understanding of economics and business tend to look upon the production and distribution of goods as a variety of mechanical techniques which experts can teach and direct in terms of hours of robot effort, types of machines, and processes for shaping and transporting specified numbers and kinds of commodities and services to specified users and consumers.

Knowing the technical advantages of certain materials, methods, and products, they may resent the restraints of business managers who must think in terms of costs and selling prices, and who know that a business must make a profit to survive and grow.

Thorstein Veblen expounded the technologist's point of view in his little book, *The Engineers and the Price System*,[1] written shortly after World War I. In this and in his earlier writings he argued that profit-seeking businessmen were holding back industrial progress in order to keep goods scarce and high-priced, and he tried to explain why engineers, not owners and investors, should control production and distribution.

His work helped to inspire the "Technocrats," an organization of engineers and others who campaigned for this idea in the 1930s. These, along with Stuart Chase and other antibusiness writers have had much to do with the denigration of business in the past 40 years and more.

This technological concept of economic activities is essentially that of Karl Marx and other socialists. It is the view that Lenin, Stalin, and the Chinese Communists have tried to put in practice, with disastrous results.

In this view, the experts in physiology and psychology can

[1] New York: Viking Press, 1921.

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even provide stronger incentives for the general run of producers than those of the price system. These experts can know better than the layman what work he can do best and with greatest satisfaction; and they know better than the average person what he needs in the way of food, clothing, shelter, and even entertainment to keep him healthy, happy, and industrious.

In an economy of trusting, cooperative producers, directed by scientists and expert technicians, there would be no need for wages, rents, interest rates, fees, profits, or other prices to guide and motivate producers. There would be no need for advertisers, salesmen, peddlers, promoters, brokers, speculators, merchants, or bankers. Producers would deliver everything consumers might need, either in the right proportions or in such abundance that no one would suffer from shortages.

The abundance would result from shifting to productive pursuits the useless workers who, in capitalism, are employed in commerce and finance. And, supposedly, any mistakes which experts might make would be less costly than the continuing costs of advertising and selling in free markets, the wastes of duplication of effort by competing firms, and the losses in output resulting from the desires of business owners to keep goods scarce and high-priced.

Why Experts Grow Less Competent to Dictate

As many scientists and technicians know, the socialist's faith in the "expert" fails to take into account the countless differences between human beings in regard to their abilities, tastes, and interests.

These differences in human capacities and interests, moreover, become greater and more significant as humans progress in knowledge and control of their environment; and they increase, not in proportion to the progress of science and technologies, but far more than in proportion. These differences make more and more difficult the task of the specialist who tries to manipulate other persons without their active cooperation.

For this reason, if for no other, each individual must more and more learn to govern himself in a progressive society – to choose his vocations, to pursue self-selected goals, and to choose the means to achieve those goals. The further humans progress, the less competent the "experts" will become in deciding what others should or must do to develop their human qualities. In other words, slavery is profitable, if ever, only when

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the victims are reduced to a near-animal level of understanding. But a citizenry of such a character can build no "great society."

Attempts at central planning and direction, therefore, become more costly as the economy progresses, as individuals gain in knowledge and opportunity, as they engage in more varied and complicated activities, and as their exchanges of services become more numerous and roundabout.

Humans are worth little, if not actually a menace, to masters who try to treat them as sheep or cattle, as if their imaginations and ingenuity were of little importance. One person becomes useful in cooperating with others in proportion as he is eager to invent better ways of doing what they want done. Then he provides services which they did not know they wanted or needed, and which they could not possibly describe or order. What master could have told his slaves a century ago how to make an automobile or airplane, a radio or television set? Even today, no individual can tell others all of the steps necessary to make even such simple things as a pencil, pen, or pocketknife.[2]

Producers must make numberless adjustments every day in their work in order merely to maintain output, let alone increase it. These adjustments call for countless decisions. In freedom, these decisions and adjustments affect the supplies and kinds of goods offered in the markets; prices offered and asked respond to these changes in output but they respond also to changes in the humans themselves. Producers and consumers, sellers and buyers, in turn respond to the price changes and thereby react to the decisions of other members of the economy with little or no need to know or understand the numberless factors which entered into the making of those decisions.

Among their other activities, businessmen watch and anticipate these price changes, publicize them, and help to speed the adjustments. A rising price in free markets is a call to increase output or to find substitutes; a falling price has the opposite effect.

This economic organization of actions and reactions is now complex beyond any imagining, and it is neither mechanical nor automatic. The price system is not merely a computer, and it cannot be manipulated like a computer. It is a system only insofar as individuals choose to cooperate and respond to one another's suggestions, inducements, and state-

[2] Cf. Leonard E. Read, *Anything That's Peaceful* (Irvington, New York: The Foundation for Economic Education, 1964), ch. 11. "Only God Can Make a Tree — Or a Pencil."

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ments; and attempts to manipulate it by force or fraud are self-defeating and destructive.

Experience with central planning in Russia and Red China shows that market prices are essential for economic coordination, and the Communist planners get a modicum of economic cooperation only as they permit individuals to profit from their enterprise in adjusting their techniques to price changes that respond to changes in the informed choices of other producers and consumers.

(2) Intolerance For Other People's Tastes

Similar to the socialist's notion that technical experts should dictate to the general run of producers and consumers is the contention that freedom for profit-seeking businessmen wastes "society's" resources by pandering to the vulgar tastes of the ignorant masses. The intellectual who likes to attend symphony concerts, or play chess, or read the writings of Plato, Kant, or Hegel, may scorn the tastes of baseball fans, bowlers, or movie goers. He may propose, therefore, that government take from them money which people use to gratify such low tastes and spend it for the intellectual's better purposes.

Businessmen know that they do not have the power often attributed to them to compel consumers to spend their money in any particular way. Nor are all of them without scruple in their choices of goods which they offer for sale. And we may ask, with Professor Stigler, whether it is any more reasonable to blame businessmen for the tastes of their customers than to blame the waiter who serves a meal to an overweight customer.[3]

We should recognize, however, that free markets do actually provide incentives for business and industry to cater to tastes for wholesome rather than demoralizing products. Consequently, we find tastes rising in eras and nations notable for the people's freedom to buy and sell for profit.

Profit-seeking enterprise in free markets tends to increase more rapidly the output of more wholesome goods because the more efficient and industrious producers in a capitalistic society are better customers, generally speaking, than the less efficient and less industrious. And these producers do not become more efficient and industrious by indulging tastes for what is base and demoralizing.

If we consider all lines of industry in the United States, for

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[3] George J. Stigler, "The Intellectual and the Market Place," *Selected Papers, No. 3* (Graduate School of Business, University of Chicago, 1965).

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example, we find that by far the greater part of the business carried on in private markets with self-supporting producers is in commodities and services designed to maintain and improve the health, vigor, knowledge, and productivity of the more industrious and prudent persons and their families. Among such items are food, clothing, and shelter, tools, machinery, and equipment, textbooks, scientific works, the endless number of "how to" books, informative periodicals, newspapers, and services of doctors, dentists, and teachers.

When we find a disproportionate growth of occupations catering to less wholesome tastes, such as for gambling and excessive consumption of alcohol, we are likely to find that governmental policies are restricting freedom of enterprise in more productive directions by taxes, wage-hour laws, regulations, and government-protected monopolies, and that welfare-state policies are encouraging idleness. As the "bread and circuses" provided by the emperors of ancient Rome helped debase popular tastes for entertainment in that era, so governments in other ages debase tastes or retard improvement as they restrict individual freedom to invest, produce, and exchange services, and as they tax the productive and prudent to support the idle and improvident.

(3) Exaggeration of Business Costs and Profits

Surveys of opinion have often shown that most persons in all nations believe that business profits are several times as large as is actually the case.

First, they often confuse gross mark-up of a merchant's goods with his net profit. The gross mark-up, of course, must cover the costs of operating his business. Net profit, however measured, is a much smaller figure.

Second, statistical estimates of the total expenditures on advertising, an activity most subject to attack by critics of business, generally involve double counting. For example, figures for total costs of advertising often include most of the costs of publishing newspapers and magazines, and the costs of maintaining the television and radio industries and providing the programs of information and entertainment. Similarly, the socialist's estimates of the amount of duplicated effort among competing firms and of excess capacities greatly exaggerate the facts.

Third, the figures of the United States Treasury exaggerate the amount of business profits.

(a) Nearly half of the total profits reported for corpo-

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rations consists of taxes paid to the United States Government, and another slice of considerable size is paid by dividend receivers as taxes on personal income.

(b) By requiring producers to use original cost rather than replacement cost in calculating the costs of replacing worn-out equipment, the Treasury forces business owners, in times of rising prices, to report as profits and pay in taxes receipts which are necessary to cover costs and which should not be counted as profits.

Fourth, from one-third to one-half of business profits remaining after taxes is reinvested in the business which earns them, and stockholders reinvest part of the remainder, which is paid to them as dividends.

When we allow for taxes and reinvested profits, we find that owners of corporations, which conduct most of the business done in this country, keep considerably less than one-third of their reported profits for personal consumption. If we may assume that they pay 20 per cent of their dividends in personal taxes, their incomes from their stocks has ranged between 2 and 3 per cent of the total national income during the past 20 years. Much of this they return to business by investing in new stock issues.

Yet demagogues can easily arouse covetousness and direct it toward suicidal attacks on business as long as people fail to understand the difference between business capital and wealth available for personal use, and as long as they fail to understand the difference between the way in which a businessman regards his profits and the manner in which wage earners and salaried workers generally look upon their own incomes.

(4) Misunderstanding of Capital

Business capital has value only to the extent that it produces goods for the market or can be used to produce such goods. Seldom is it in a form which the owner can use for personal enjoyment and consumption.

Furthermore, the capital has value only insofar as it can be used to produce goods at a profit.

Ignorant and unthinking persons, noting the stocks of merchandise and handsome buildings, may envy the supposed riches of the merchant who owns it. They may conclude, since most others in the community have little wealth, that the merchant has done little for his neighbors, or that he has

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somehow gained his supposedly great wealth at their expense.

Such envy may be misdirected, and the suspicions are generally unjust. Some of the capital may be borrowed from creditors, perhaps from creditors who live in a foreign land. Another part of the capital may belong to partners or stockholders.

But a man may be the sole owner of an imposing establishment and be free of debt, yet have no more than his poorest neighbors if the business cannot operate at a profit. The equipment of a losing business may not be worth the cost of scrapping it, and the building not worth the cost of demolishing it, so that neither the equipment nor the building has a sales value.

In any case, business capital must serve mainly persons other than the owner if it is to have sales value; and it is a possible source of personal income to the owner only to the extent that it supplies other persons with goods worth more than the cost of producing them. When, for any of many possible reasons, it ceases to earn a profit, the owner is generally unable to use much of it for his own subsistence.

Inability to understand these facts about business capital is a principal barrier to the economic progress of the so-called "underprivileged," or "underdeveloped" nations. The successful merchant's neighbors or the politicians think to enrich themselves by seizing his capital, only to find that it vanishes as they reach for it.

And they equally eat into capital as they tax profits. The misunderstanding of the peculiar nature and function of business earnings, which gives rise to discriminatory taxes universally levied upon them, is a principal obstacle to economic progress even in the most capitalistic countries.

(5) Misunderstanding of Profits

The notion that profits serve mainly as a personal incentive for business efficiency and enterprise not only supports uneconomic tax policies but is a handicap to any businessman who entertains it or whose partners, stockholders, or family persuade him to act upon it.

Consider the effect of this idea upon the thinking of a wage earner, clergyman, or school teacher who hears that the profits of a particular businessman or small group of stockholders amount to many millions of dollars per year. "No one needs so much income," the teacher or clergyman is likely to think, "to induce him to do his best in work such as that of business management."

As a result, politicians find widespread support as they take

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half or more of profits and dividends for "public" use, or when their tax policies compel business owners to make huge donations for nonbusiness purpose ("philanthropies") so that their heirs may retain control of a going concern, or when unions stage a mass hold-up to force a profitable company to pay more than free market rates for labor.

The individual businessman who uses his profits as most employees use their wages, mainly to buy goods for the personal use of himself and his family, achieves little business success. His business does not grow, his profits remain modest or small, and his enterprise is likely to exist but for a brief time in a progressive economy.

The flourishing and enduring businesses are those whose owners make use of their profits primarily as a *measure* of business efficiency, a *guide* for business policy, and a *source* of the equity capital necessary for growth and stability.

Profits are the earnings which remain after deducting the owners' salaries for their own managerial efforts, costs of replacing worn-out equipment, payments into reserve funds to pay for probable losses, and such interest as their capital might earn in risk-free investments, or loans.

Most businesses actually return little to the owners beyond salaries for their personal services and a modest rate of interest on their investment. In fact, many owners continue in business only by taking out of it for their personal use less than they could earn as salaried employees in some other firm, and they get no return for interest on their invested capital. These businesses operate at a loss, and the owners make up the deficits out of their own wages and other income.

These are the kinds of businesses that are typical of poor countries. Governments of these so-called backward countries permit few really profitable businesses to exist. By taxes, costly regulations, license restrictions, or outright confiscation, they prevent businessmen from earning or reinvesting profits, and thereby prevent the growth of business capital. This is why these countries remain "underdeveloped."

Businesses grow only as the invested capital grows. The owner's capital is sometimes called "equity capital" to distinguish it from the "loan capital" which he may borrow from nonowners by selling bonds or notes.

Growth of the owner's equity is necessary for business expansion, not merely in the form of new buildings and equipment, but to guarantee payments to the grow-

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ing numbers of employees and suppliers with whom he contracts to pay fixed wages and prices before he sells the products. He needs equity capital also to guarantee repayment of borrowed funds in case the investments financed in this way prove to be unprofitable.

In freedom, such as the people of the United States enjoyed prior to the great increase in tax burdens after 1930, business capital grew at unprecedented rates. As a result, the wages and other incomes in this country rose more rapidly than in any other country.

How Business Grows

This rapid growth of capital came about mainly in the form of reinvested profits[4]. The Ford Motor Company, for example, reinvested profits at the rate of nearly 70 per cent, compounded annually, in its first 20 years. In this way the original capital of $28,000 increased to approximately $1 billion. If the founder had paid out in dividends to himself and other stockholders one-half of these profits each year as they were earned, and invested only the remaining 35 per cent, his total capital from this source at the end of 20 years would have been only a little over one per cent as great — approximately $11,000,000 instead of $1 billion. For the 20-year period the total dividends also would have been approximately $11,000,000, only a small fraction of the several hundreds of millions of dollars now paid in dividends to Ford Company stockholders every year. And, of course, the Company could have produced little more than one per cent as many cars.

If present tax rates had prevailed from the beginning, they would have cut off nearly 99 per cent of the Company's growth. Yet the total tax receipts from the Company for the 20-year period would have been only $11,000,000, instead of the hundreds of millions (more than $600,000,000 in 1965) which the Government now rakes in every year from this one concern.

When we examine the history of other leading businesses in this country, we find that they were similarly built mainly out of profits reinvested by management as they were earned or by stockholders who used part of their dividends to buy new issues of stocks.

Anyone who looks for these reinvested profits finds only a small part in the form of currency in vaults or bank deposits. As forms of wealth, he would find them mainly in the buildings, machinery, and equipment, materials in process of production, and research laboratories — capital goods

[4] Cf. Carl Snyder, *Capitalism the Creator* (N. Y.: Macmillan, 1940).

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used to produce commodities and services for persons other than the owners.

True, owners of successful businesses and their heirs generally use part of their incomes for personal consumption: mansions, yachts, costly cars, travel, and entertainment. But their expenditures for such purposes have been generally but a small fraction of their profits. Often the amounts were no greater than the salaries they might have earned as managers for other employers. In other cases they spent part of the interest on their investments. Those who spent for personal consumption total sums comparable to the reinvested profits generally had to surrender control of the business.

Successful businessmen are no more motivated by desire for profits than skillful surgeons by desire for fees. Men like Henry Ford, Andrew Carnegie, John D. Rockefeller, James J. Hill, Wanamaker, Filene, as well as the lesser business leaders, had the motives of great achievers in art, music, religion, and education – the motives of the builder, the architect, the organizer, the mountain climber. They used the profits as indexes of the wants, tastes, interests, and capacities of customers, associates, investors, employees, and suppliers. They used them as measures of efficiency in their efforts to maximize value at least cost. And as they managed more efficiently, their rising profits provided increased means for further increases in productive capacity and business security.

Therefore, policies which compel distribution of business profits to consumers – whether to wage earners, to the families of stockholders, or to governments – may have little effect in reducing the intensity of effort put forth by business leaders, but they do reduce their capacity to do their job.

(6) Statism vs. Business

Every increase in the size and cost of government relative to private enterprise increases the temptation for officials and politicians to foster antibusiness sentiment among the people at large.

The cause of the rise in scope and costs of government may be war or threat of war. A natural disaster may cause some mechanical or economic breakdown and provide an opportunity for government to expand its powers and functions. An organized clique may gain office and grant themselves political privileges – governmental subsidies or restraints on competitors – before taxpayers know or understand what is going on.

Whatever the cause may be, every rise in government costs

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prompts politicians to impose new taxes on places where money is easiest to find. These places are likely to be where individual streams of money converge: the centers of buying and selling, the places of business.

To win popular support for these new raids on business income, politicians pose as heroic Robin Hoods seeking only to restore to the poor the ill-gotten gains of the rich. To produce in the public mind the appropriate images of themselves and of those whom they propose to tax, they hire speech writers and pay subsidies to publicists and pedants.

As the special privileges or wars and rising taxes increase business costs and prices, trade declines. Producers learn to make things for themselves or to do without. As they lose the advantages of specialization and trade, their output declines, unemployment rises, and pauperism spreads.

Tax receipts fall, but the greater the decline, the more strenuously a powerful government may strive to maintain its income by new taxes and higher tax rates. At the same time, it intensifies its efforts to make business enterprise the scapegoat for the mischief wrought by its own policies.

During the past half-century, these antibusiness policies have produced famine and every other form of human misery in Soviet Russia and Red China. The same results, to a somewhat lesser degree, followed similar policies enforced with less determination in Egypt, Algeria, Bolivia, Cuba, socialist India, and other countries.

But for a far longer period, we now have authenticated, detailed records of the retreat toward savagery which followed similar conquests by statists and paternalistic despots during the 2,000 years preceding the modern era. In particular, we should know of the long period of economic disintegration, recurring famines and plagues, and brutalized tastes and manners that, over much of the western world, followed the long war against business from the time of Plato to the rise of new, business-oriented, city states at the beginning of the modern era.

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For the Sake of the Poor

PAUL L. POIROT

"That some should be rich," observed President Lincoln, "shows that others may become rich and hence is just encouragement to industry and enterprise." Four years earlier, shortly before he gained the Republican nomination, he had similarly testified about the desirability of property: "I don't believe in a law to prevent a man from getting rich; it would do more harm than good." And he might well have said the same about a law to prevent a man from being poor: it would do more harm than good.

Abraham Lincoln had known abject poverty and would rise above it to the Presidency. It is not the only way, of course; some of the children of some wealthy parents also have lived worthy lives. And whether it is easier to grow out of poverty or to emerge successfully from a condition of affluence is a moot question. The point is that poverty serves a purpose. It is painful to a sensitive individual and stimulates him to take corrective action, much as a sense of pain activates one to remove his hand from a hot stove. However great the pain, it would be far worse to be burned without feeling it. Almost as deadly, for most of us, would be to find comfort — to experience no pain or uneasiness — in a condition of poverty.

What's the point of all this? The point is that American citizens are being burned to death, and we don't seem to know it. We are letting ourselves be persuaded that the only way to get a scarce item is to stand in line waiting for it. And why should we do that? For the sake of the poor, of course! What are we waiting for? Yesterday a roast of beef, today

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a tank of gas, tomorrow a carton of milk or eggs or cereal, a bag of onions or potatoes or apples, or who knows what then will be the object of greatest intervention for the sake of the poor!

If an individual is allowed to respond to his senses, he need not be a genius to deduce that waiting in line is unproductive; it produces poverty rather than more of the goods and services he'd like to have. No man, unless he be one of the least productive among us, could afford to stand in line for a subsidy of less than $3.00 an hour; he could make more than that by working. If necessary, he could pay double the subsidized price of gas and still be ahead on the deal if he didn't have to wait to be served. And the saddest part is that no such price increase as that would be necessary to clear the market immediately.

Government in Business

When the man with the gun, the one whom we collectively empower to defend life and property and to keep the peace, interferes with market pricing — artificially depressing the price of gasoline to curb the profits of sellers — the excuse is that the underpricing is for the sake of the poor. What it amounts to, strictly in terms of price, is a subsidy to the consumer of gasoline, which means that some of the pain of poverty, some of the penalty of failure, has been killed or diminished. The law of the land says that it is 2 cents or 5 cents a gallon less painful to be poor than says the law of supply and demand. Production and consumption of gasoline is thereby removed from the world of reality, and instead of gasoline enough to satisfy the demand at the free market price, the artificially depressed money price creates a real shortage of gasoline and a high extra cost of waiting in line for an unsatisfying combination of gas and subsidy.

Ask yourself the next time you're waiting in line, or check the faces and the behavior of those in the next line you see: Is this the picture of a peaceful and friendly society? It is not. It is a picture of anger and hatred and violence barely suppressed — a situation closely patrolled and supervised by armed policemen. Why the policemen? Why, to enforce the law that was enacted to help the poor, the law enacted by the agency of force that was constituted to *preserve* the peace — not to *disturb* it.

Seeds of War

Personal liberty and private property are results of peaceful production and trade rather than coercive practices. You have life

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and liberty because I respect you and what is yours. I respect you and yours because I believe you respect me and mine. And out of such a chain of respect comes freedom and a peaceful and progressive society. But let one person break the pattern, bring coercion to bear against one or more other peaceful persons, and there will be a chain reaction of ensuing disrespect and violence.

Is it a sign of respect for an individual to forcibly prevent his being as poor as he chooses? Not that he chooses necessarily to be poor, but that he chooses to avoid various actions or efforts that could alleviate his condition of poverty. Is he to be denied the freedom to make such a choice and to assume responsibility for the consequences? How is a person to develop a sense of self-responsibility if he is not permitted to experience the results of his actions? How is it possible to relieve some persons or groups of the burden of their failures, by the process of governmental subsidy, without at the same time taxing from others some or all of the earnings derived from proper or successful action? By what process can we relieve the poor of their own responsibilities without forcing the producers and savers to be equally irresponsible?

Let us bear constantly in mind that we are not so much concerned here with the possession and use of pieces of paper money or other currency. Our concern, rather, is with the possession and use of scarce and valuable goods and services. In whose hands, under whose management, would such scarce resources be used least wastefully, most efficiently?

Dividing Wealth Does Not Increase the Supply

We tell one another that man does not live by bread alone, but are we sure we know what we mean? We see clearly that a loaf of bread may help to sustain life if it is available for consumption. Do we see as clearly that some of the wheat must be saved and used as seed, along with other productive resources, if there is to be a continuing and ample supply of wheat and bread? So, we do care – as much as any socialist cares – who has bread enough to eat; and if we care enough, we will do everything in our power to see that the ownership of wheat is concentrated primarily in the control of those individuals who waste it least and use it most productively and efficiently. It is no service to the poor to forcibly confiscate private property and redistribute it among the least productive persons in society. For once they consume it today, who will bother

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—or have the means—to feed them tomorrow?

Still, there tends to be a feeling of resentment against those who earn their living producing the goods and services consumed by the poor. Some of those producers are rich! Sometimes it is highly profitable to have correctly anticipated consumer demand and to be among the first to supply in quantity what they want. But profits are ephemeral and tend to disappear or merge into losses under competitive pressure. And in any event, entrepreneurial profit is never something that is added on to the price which consumers pay for an item. Rather, it is taken out of costs, and goes to the most efficient producers of that item. The least efficient producers barely break even, may even suffer losses for their efforts to supply goods and services consumers want.

The point is that the property accumulated in the hands of the so-called rich through the market or business process (as distinguished from the opulence of political rulers and kings) is not necessarily and probably not primarily a result of profit-taking. Savings may originate in many ways. A man may save some of what he earns as wages. Studies of industrial production indicate that industries on the average in the United States pay out in wages, directly or indirectly, about 85 cents of every dollar received from sales. So, if wage earners want to save, theirs is the biggest chunk of the pie from which to draw. The next largest chunk goes to creditors, savers who lend the resources needed to provide the buildings, tools, and other capital required to carry on the business. Creditors earn interest – not profit – on the capital they lend. Hopefully, the owners or stockholders may earn some profit for the entrepreneurial risks they assume; but many of them lose their investment, too, or fail to earn as much as if they had put that amount in a savings bank at interest.

So, some of the property of some of the rich may represent an accumulation of profits earned. But it is far more likely that most of the property of the rich will have come about from saving and wisely investing or lending what had been earned in wages. And surely that must have been the formula Abraham Lincoln had in mind when he cautioned against "a law to prevent a man from getting rich." He was a friend of the poor.

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INFLATION: By-Product of Ideologies in Collision

WESLEY H. HILLENDAHL

THE FACT that man has endured ideological conflict since his beginning on earth is the central theme of the great scribes of all civilizations that have left records of their existence. While the predominant focus has been on moral philosophy, these ideological conflicts have ranged far and wide. They have pervaded the formal institutions of the church, government, commerce, finance, agriculture, education as well as culture and the arts. In the present age the struggle centers on the law, the rules by which contemporary civilizations are ordered and under which individuals conduct their daily affairs with each other.

Whether man will be free to pursue his life and God-given destiny in an orderly environment in which government plays the domestic role of impartial umpire, or whether his life will be controlled in every detail by the dictums of an omnipotent materialistic bureaucracy is the central theme of today's conflict. Indeed, this is the essence of the catastrophic collision of economic thought of the 19th and 20th centuries. Upon the outcome of this collision will depend man's way of life for generations to come. In simple economic terms, will the market place exist to serve the individual according to his choice, or will the market and the individual be under the control of the state?

Mr. Hillendahl is Vice President of the Bank of Hawaii. This article is reprinted by permission from his paper at a March 1974 seminar sponsored by The Committee for Monetary Research and Education.

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Ideological Roots of the Free Market Economy

It is doubtful that a totally free market economy ever existed – one that is completely free of state intervention of one sort or another. And only in a few brief periods of recorded history has man been sufficiently motivated to assert himself to the degree required to grasp control of the market place from the hands of the rulers.[1] Such an event occurred in 1776 in America, but it was far from spontaneous. The spirit of '76 had been brewing for centuries in Europe. Its unique significance may be brought into focus by a brief review of several historical events. In this review, the essential distinction between the legal framework and the economic system must be kept in mind. It is all too easy to confuse the economic activities of a people with the legal framework under which they live, particularly today as government becomes increasingly involved in the economic affairs of its citizens.

The first of these historical incidents occurred on June 15, 1215 A.D. One recalls that King John of England was an oppressive tyrant. English noblemen and freemen became so incensed at the king's disregard for their rights that they pursued him to Runnymede where he was "convinced" to sign a document called the Magna Carta. This summit meeting produced a document which provided the concept of trial by jury, no taxation without representation, and the Writ of Habeas Corpus. It provided the fundamental restraint on government in the form of written law known throughout much of the world today.[2]

By 1628, the British King's disregard of individual rights won 400 years earlier became so insufferable that Parliament refused to vote any money to run the kingdom, and King Charles I was forced to sign the Petition of Right. This document provided the essential ingredients of personal security by restricting conditions relating to the levy of taxes, boarding of troops, declaration of martial law, trial by jury, and arbitrary imprisonment; without these rights, an individual cannot enjoy personal security.

In 1689, Parliament rebelled against King James II's tyrannical belief in absolute monarchy. Out of this action came the British Bill of Rights. Political liberty had triumphed in England, and with it a degree of economic freedom unknown before.

The profound significance to Americans of these early limitations on government is easily recognized, for in the first eight amendments to the Constitution of the United States, we find the in-

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fluence of the Magna Carta, Petition of Right and the English Bill of Rights.

It was George Mason, the Virginian,[3] more than any other individual who forged the basic structure of limited and divided powers of government found in the United States Constitution and Bill of Rights. These are restrictive documents in the sense that they place more constraints on government than had ever prevailed in the past. The intent was to fragment political power, and to provide major obstacles to the reassembly of that power. In the wake of the centuries of tyranny, and the sacrifices of untold thousands of individuals in their struggle for freedom in England and Europe, the founders of the Republic were hardly likely to construct a government which could be centralized easily at the expense of individual liberty. The principle of separation or subdivision of powers, as championed by men such as Mason, is still history's most effective stumbling block for tyrants. However, the Constitution was not perfect, and it was George Mason who foresaw the fatal flaws introduced by compromise that ultimately became the avenues by which much of it has been struck down.

In 1850, a French statesman, economist and author, Frederic Bastiat, espoused the theme of limited government at a time when France was turning to Socialism or total bureaucracy, following the French Revolution in 1848 which had coincided with the release of Marx's Manifesto. Bastiat emphasized the essential spiritual antecedents in the framework of economic freedom. He commenced his book, *The Law,* with the following: "We hold from God the gift which includes all others. This gift is life – physical, intellectual, and moral life. . . . Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make laws in the first place."[4]

It is all but forgotten by many today that the State is not the source of liberty and property; these are inalienable rights that come from God.

Bastiat expressed the issue clearly: "What, then, is law? It is the collective organization of the individual right to lawful defense. Each of us has a natural right – from God – to defend his person, his liberty, and his property; and by extension it follows that a group of men have the right to organize and support a common force to protect these rights constantly."

He concluded, ". . . since an in-

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dividual cannot lawfully use force against the person, liberty or property of another individual, then the common force – for the same reason – cannot lawfully be used to destroy the person, liberty, or property of individuals or groups." In Bastiat's eyes, any form of state intervention in the affairs of the individual is not only illegal, it is immoral and contrary to God's law.

Thus did Bastiat so eloquently summarize what had evolved over hundreds of years – the legal framework of the constraints on government that make it possible for each of us to order his own life, and to offer his service in the manner called "free enterprise."

Here then are the moral and spiritual antecedents of the American system as codified in the law forming the framework of the free market economy. Being all but forgotten today under the pressure of the conflict, these principles are restated here because they constitute the *raison d'etre* for any meaningful monetary and economic reform.

Accomplishments of the Free Market

Having established a Republic under the legal framework of limited government, what could man accomplish in the free market?

In the beginning the focus was mainly on the family, the community, and the job of survival. By 1840, 70 per cent of the people in the United States still lived on farms, while more than 90 per cent grew their own food. Not satisfied with devoting most of his energies to the drudgery of survival, the free individual American possessed of a drive to better himself undertook an unprecedented change in his way of life.

The age-old concept that man's material wealth is limited, which had arisen out of the fact that human energy had never been effectively augmented, gave way to the principle that material wealth could be expanded to an almost unlimited extent by multiplying limited natural resources and limited human energy by tools using non-human energy.[5]

During the 1800's, a massive reconstruction of the application of labor was brought about through the invention of a host of machines which permitted the augmentation of human effort by non-human energy. Initially, wood and whale oil were the principal sources of energy. These gave way in time to petroleum products, the use of which doubled decade after decade until early in the 20th century.

In agriculture, the first significant invention, the steel-bladed plow, occurred in 1841. In rapid succession came the power reaper,

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the steam thrasher, and the haying machine. Then in 1884, the first combine and the first tractor appeared. All of the things which we take for granted today were marvelous inventions in those days. Can you visualize yourself pitching hay or performing some other type of hand labor on a farm before being rescued by these marvelous machines?

After the turn of the century, a whole succession of specialized tools and machines were developed which bring food all the way from the farm to the home refrigerator. As a consequence of these labor-saving inventions, the 70 per cent of people on farms in 1840 had been reduced by one-half by the turn of the century. Continuing advancement to World War II brought the proportion of people on farms to 18 per cent. Today, only about 5 per cent of the population live on farms, and farm labor accounts for only 4 per cent of the nation's labor force. At no time in history nor in any other country has there been such extensive productive application of man's inventive genius; and the process seems endless.

Economic freedom has, by similar processes, provided an enormous expansion of physical and mental productivity, and offered the incentive to develop the vast array of items that have become the underpinning of our standard of living. We've had the incentive to solve disease and sanitation problems, provide housing for the entire population, develop great centers for preserving and transmitting our accumulated learning, and transfer goods via a vast production, distribution and marketing mechanism unknown in history.

The Roots of the Controlled Economy

At the heart of the notion that the economy must be controlled by the government are several well recognized themes: (1) the concept that society is made up of two classes, the oppressed and the oppressors, the "class struggle", (2) the concept of "exploitation" of man by man, and (3) the concept that the controlled order is inevitable as the consequence of the inexorable increase in impoverishment caused by the development of capitalism.

Hence, by revolution as advocated by some, such as the secret League of Just Men who had commissioned Marx to write their *Manifesto,* or by evolution as advocated by the British Fabian Society or the ADA, ". . . It is necessary to emancipate society at large from exploitation, oppression, class distinctions, and class struggles."

The economic and political meas-

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ures by which collectivists intend to convert society generally include:[6]

1. Abolition of private property and the rental thereof to individuals by the state.
2. A heavily progressive income tax.
3. Abolition of all right of inheritance.
4. Government control of credit by means of a monopolistic central bank.
5. Government control of communications, transportation, and means of production.
6. Abolition of distinctions between urban and rural areas by redistribution of population.
7. Free government schooling.

These features of the welfare state, Socialism, the planned economy – call it what you will – are recited, not as we recited the roots of the free market which are all but forgotten, but because they are so conspicuous in today's economy that we are inclined to overlook what they really are – the legal framework for the very antithesis of the free market which this country's founding fathers envisioned.

Ideologies in Collision

Both Marx and Bastiat expressed concern for the common man under the tyranny which had prevailed for centuries in Europe and England. But Marx advocated as a substitute for the monarchy a new form of tyranny – a bureaucracy supported by a synthetic majority rule; whereas Bastiat and his English counterparts correctly envisioned that only by placing all forms of tyranny in the chains of restrictive law could man arise out of repression.

Hence, the industrial revolution in America, operating under the aegis of a Constitutional Republic providing maximum freedom for the individual and a minimum of exploitation, bore fruit as nowhere else in the world. Instead of the exploitation and oppression, anticipated by Marx, has come the emancipation of the masses seen in the visions of the founding fathers.

However, while vast economic changes were occurring throughout the western world and in America in particular over the last century, government was also undergoing a transformation of major proportions. From an inconsequential power over economic affairs during the 19th century, the Federal Government today has become the most powerful bureaucracy on earth, and has regressed into a massive engine for control and redistribution of people and wealth, largely as Marx and his colleagues had advocated.

Much of what government has undertaken domestically falls with-

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in the prescribed limits of the role of referee. However, the main thrust of government activity in recent years has gone far beyond the prescribed limits. F. A. Hayek, in *The Constitution of Liberty*,[7] foretold the consequences of practices which have developed under persistent pressure to do away with those limitations on government which were erected for the protection of individual liberty.

"This conflict between the ideal of freedom and the desire to 'correct' the distribution of incomes so as to make it more 'just' is usually not clearly recognized. . . . But the ultimate result . . . will necessarily be, not a modification of the existing order, but its complete abandonment and its replacement by an altogether different system – the command economy."

Hayek is one of the few writers who correctly recognized the mixed economy for what it is – an unstable transitional condition between the free market economy and the bureaucratically controlled society.

Inflation in the Transitional Period

While those who champion the sanctity of individual liberty and the ideal of the free market deplore the transition, socialist scholars are inclined to want to get on with the work of erecting the bureaucracy and eradicating all vestiges of their bogy man, "laissez faire" enterprise. Be that as it may, it is the contemporary status of this transition that invites our closer examination. Specifically, our concern is the phenomenon of inflation in the mixed economy as a manifestation of the transition.

Because many qualified economists have demonstrated the essential monetary nature of inflation, we need not restate here the distinction between money and credit expansion and the resultant rise in wages and prices, nor go into the fine points of monetizing debt.

There is a prevailing notion that in the transition period during which functions performed by the private sector of the economy are transferred to government, inflation will persist as long as the still strong private sector and the growing public sector fight for the limited amount of capital.

However, many economists seem only recently to be grasping the fact that as the transition progresses, so must monetary inflation proceed at an accelerated rate. The long-standing argument that the manner in which government debt is funded is a determining factor in inflation, seems inadequate to explain the evident fact that inflation is accelerating.

The problem is that too much

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attention has been devoted to national income analysis while ignoring the nation's balance sheet. An examination of practically all measures of balance sheet liquidity or cash reserves reveals that the private sector of the economy is being progressively starved of funds by rising taxes and increasing costs of nonproductive overhead caused by governmental interventions.

Expanding Government

Empirically, the record in the United States shows that so long as all governments combined took in direct and indirect taxes less than 25 per cent of personal income, some discretion existed as to what rate of monetary inflation could be undertaken at any given time. However, once government expanded beyond the range, as it did years ago, the economy embarked on a one-way street; and as government grows progressively larger at the expense of the private sector, so must inflation proceed apace to accommodate the credit requirements of the economy.[8]

Government spending having expanded to more than 43 per cent of personal income, this progressive expansion of credit is necessary to avoid collapse as the level of borrowing must also accelerate in lieu of diminishing residual profits and retained earnings.

Ultimately, as government proceeds progressively to confiscate all earnings, one might expect monetary inflation to reach proportions experienced in France in the 1790's, Germany in the 1920's, Russia immediately after the so-called revolution, and Hungary in 1946.

However, before hyperinflation of such proportions would be generated, it is more likely that an attempt toward the conversion to a totally controlled economy will be undertaken under the guise of some combination of "emergencies." Many of the mechanisms to achieve such a conversion have been on the books for many years.[9] And Congress delegates additional "emergency powers" to the bureaucracy as each new "crisis" is engineered.

Meanwhile, unforeseen developments such as the projection of the Middle East conflict into the otherwise inevitable domestic oil shortage may produce profound and undefinable effects on the future timing and nature of the conversion, not only in the United States, but worldwide. It is clear that the Arab nations have administered the *coup de grace* to the faltering International Monetary Fund, and that the role of gold is about to achieve a significance in world monetary affairs virtually inconceivable in the United States only a few years ago.

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Inflation in the Controlled Economy

It is not our purpose here to enter into a theoretical discussion of inflation under Socialism, but rather to suggest two thoughts. First, utopian goals of inflation-free prosperity for all, as envisioned by the planners of the multinational political economy, may be quite unrealistic.

The end product of the transition from the free market to Socialism even in America may well produce vastly different results than expected. Simply stated, a bureaucratically controlled economy is incapable of maintaing a level of production adequate to sustain itself. In the absence of the profit motive, people will not produce at their capacity, and in the absence of a mechanism to retain and utilize savings, the machinery of production will either run down or wear out. Even more significant is the underlying moral issue. Let us heed Garet Garrett's words:[10]

> When in the conquest of power and for political ends a government deliberately engineers inflation . . . the people will lose control of [government] . . . and finally, the revelry of public money, which for a while seems to cost nobody anything, brings to pass a state of moral obliquity throughout society. The monetary debacle is relatively unimportant. The moral debacle is cancerous and possibly incurable.

Who, then, under the controlled economy will have the incentive to continue to produce the economic abundance from which has been drawn the hundreds of billions of dollars of foreign aid designed to prop up untold socialist experiments in a hundred or more countries, the numerous unsupportable and uneconomic public infrastructures,* the vast non-productive, self-defeating bureaucracies set up in many so-called developing nations to divide the free loot?

Can Russia Survive?

But of even greater significance, what will be the fate of the USSR, the greatest socialist experiment of all time? This question may sound strange in the context that the USSR is presented to us as an economy based on such a highly advanced technology that it poses a vast military threat to which we must respond by spending over $80 billion annually on armaments.

Under the Czar, Russia was well advanced into the industrial revolution, and at the turn of the century, was the world's leading

* All too frequently American taxpayers' dollars have been used to provide infrastructures which to date have done little to improve the status of the average citizen of developing nations; instead, the benefits have accrued largely to the profits of multinational corporations which have located plants in these low-cost labor markets.

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oil exporter. But such prerevolutionary developments are portrayed as insignificant in terms of the Soviet's achievements of the past 50 years.

However, the record shows that present day Soviet technology is synthetic – it has all been imported. Based on ten years of research into official documents, Antony C. Sutton, research fellow at the Hoover Institution on War, Revolution and Peace, developed grounds for his widely quoted testimony before the Republican Party National Convention in 1972.

In Sutton's words: "There is no such thing as Soviet technology. Almost all – perhaps 90-95 per cent – came directly or indirectly from the United States and its allies. In effect, the United States and the NATO countries have built the Soviet Union. Its industrial *and* its military capabilities. This massive construction job has taken 50 years, since the revolution in 1917. It has been carried out through trade and the sale of plants, equipment and technical assistance."[11]

Sutton also quoted Ambassador Harriman: "Stalin paid tribute to the assistance rendered by the United States to Soviet industry before and during the War. Stalin said that about two-thirds of all large industrial enterprises in the Soviet Union has been built with the United States' help or technical assistance."

The West Helps Russia

In his three volume work, *Western Technology and Soviet Economic Development*[12] covering 1917 to 1965, Sutton demonstrates on an industry-by-industry basis that the West has contributed under contract essentially all the plants and technology which comprise the Soviet military-industrial complex today.

Of great significance is his statement that it has been shown Russia has never suffered from a dearth of competent technical and scientific personnel, rather the bureaucracy is incapable of translating the endeavors of individuals into productive results.

The power of his statement is that it is not theoretical, but is based on the observed record. Its significance lies in the application of Garrett's observation regarding the cancerous moral debacle which occurs under bureaucratic control. In basic English: People cannot be forced to produce effectively without personal incentives to do so. And Socialism demonstrably fails to provide these essential incentives.

In my opinion, the death of the free market in the United States would come not as a sudden de-

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pression, but rather a gradual sinking into stagnation in activity characteristic of controlled economies. The drying up of that enormous production by which much of the so-called free world is subsidized would also cause the stagnation to extend abroad. Finally, the stream of technology upon which the Iron Curtain countries have relied for 50 years would dry up, and the Soviets, for the first time in their existence, would be cast free to sink or swim on their own.

Socialism Precludes Inflation?

The second thought I wish to examine more carefully is the notion that inflation is a product of sound monetary practices, irrespective of the type of economy or political framework. Let us not forget that one of Napoleon's first acts was to restore the gold standard in France.

As to the alleged freedom from inflation in a world under Socialism, we may turn to economist Benjamin Anderson:[13]

> By 1921, Lenin had reached the conclusion that pure communism would not work, and the New Economic Policy announced by Lenin in 1921, frankly acknowledged a partial return to capitalism. The reestablishment of capitalism in Russia involved the redevelopment of a money held as closely as possible at a parity with gold. In the years that followed, Russia had repeated slumps in the value of its currency, but always resisted them, and finally turned decisively toward heavy gold production, recognizing the need of gold both for international use and as an element of strength in the domestic currency situation.... Russia could never make its paper money a "thing in itself" created by the state and held fixed by the state's fiat.

Currently, the Soviet Union holds gold in such high esteem that the first of four nuclear power plants was recently activated to power gold dredges and other mining machinery at the Soviets' principal gold mining center of Bilibino in Siberia.

Hence, it would appear that in the totally socialized world, civilization would descend into stagnation for an untold period of time. If such economy as remains in the world is to be free of inflation, it could be accomplished only by recourse to that perennial barbarian, gold.

The Solution — A Moral Issue

Although we are far down the road, this dismal outcome of the ideological collision need not occur — indeed, we must not permit it to occur. However, mere monetary constraint will no longer provide an effective answer because of the balance sheet liquidity prob-

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lem. Restoration of a sound gold convertible currency is a move in the right direction; but if Anderson's observations regarding the Soviet Union are valid, such a move will not, in itself, eradicate the bureaucracy. Only by attacking the ideological roots of Socialism can the tide be turned in practice. This means checking the growth of government and the spawn of monopoly industries which through the centuries have always fed on centralized power. This means returning government to its constitutionally authorized role and restoring true competition to the market place.

In the final analysis, the issue is a moral one: Are enough people willing to exercise sufficient individual initiative, responsibility and integrity to do the job?

In the abstract, this seems to be a reasonable challenge. But in practice, how many businessmen who espouse free enterprise for their own businesses will give up the practice of using their influence with their legislators to limit competition or otherwise gain economic advantage through the legislative process?

How many businessmen will sacrifice profits in a genuine compassion for their fellow man by giving up their lucrative business with the bureaucrats of countries who have sent millions of their citizens to their death in slave labor camps?

How many businessmen will voluntarily undertake the necessary expenditures to control their factory effluents in the interest of cleaning up genuine environmental health hazards, or will do the same for their employees by minimizing work hazards?

How many labor union leaders will acknowledge that they can obtain more jobs and better working conditions for the rank and file union members by allowing companies to make higher profits for capital formation rather than by extracting maximum wage and fringe benefits at the bargaining table?

How many able-bodied people who are racketeering on welfare will voluntarily go back to work?

How many legislators will stand in the face of the pressures of those bent on selfish gains and stop the legal plunder? And of equal importance, how many legislators will stand for election on constitutional principles instead of offering even more legal plunder?

How many government bureaucrats will voluntarily husband public funds, trim dead wood from their departments, and phase out unnecessary operations?

These are examples of individual human actions. Ludwig von

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Mises, who was acknowledged to be the greatest contemporary champion of the free market, has shown that economics is the aggregate of individual human action. Whether a society is basically moral or immoral in total depends on the degree of morality of the actions of each individual in it. Inflation is the aggregate result of legal plunder – as such, it represents the epitome of immorality.

In a totalitarian society, the problem of inflation, like any other, can be controlled at any time by government decree, but only at an unmeasurable cost in loss of personal liberty. In a free society, control over inflation can be accomplished only when its underlying causes are held in check by the predominance of individuals motivated by moral principles and acting with economic responsibility.

Only when sufficient people recognize the moral nature of the problem and are willing to act accordingly will the surge toward the command economy be reversed.

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The Rare Moment

LEONARD E. READ

The rare moment is not the moment when there is something worth looking at, but the moment when we are capable of seeing. — Joseph Wood Krutch

WHEN IS THERE "something worth looking at"? Any time! There are good things to see at all times, in all places, and by all individuals. It's a matter of personal choice; and how varied are these value judgments of individuals! For instance, there are many who are more attracted to the labor-saving device known as thievery than to anything else. They think stealing is a procedure "worth looking at."

Pause here for a moment. Some of us think of thievery – whether carried out by individuals or practiced collectively "from each according to ability, to each according to need" – as very low on the scale of values. Why? Simply because our judgments differ from, and are presumed to be at a higher level than, those of the thief. But we must be careful in condemning persons whose value judgments are, in our opinion, lower than our own. For implicit in such an attitude is the claim that we are superior.

After all, who is any of us but an imperfect mortal! If we demand that others see things as we do, we are opening the door to the possibility that we should be forced to look at only what a governing majority of others believe to be worth looking at. And bear in mind that no two of us have the same judgments; indeed, one's own values change from one day to the next. So, we need the flexibility to cope with constant changes. I would let each decide for himself what's worth looking at and suffer the penalties of his errors or the blessings of his righteousness.

Man's ideas as to what's worth looking at range from pornography to sunsets, from Picasso to Raphael; from the Pyramids to the Jungfrau; from ancient ruins to the Taj Mahal; from *Soviet Life* to the Holy Bible; from atoms to galaxies; from Bach to rock. Ideas and ambitions range from state socialism to individual

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liberty; from a square meal to an elaborate symphony; from quiet repose to strenuous executive activity; from a decent burial to a voyage of exploration over unchartered seas; from the cheapest fiction to the purest science or philosophy; from thinking for self to imitating others – you name it!

Krutch is right. The rare moment is not the moment when there is something worth looking at. What could be more common? Every moment of one's life affords that opportunity.

Beyond the Flash

The rare moment is when we are capable of seeing – that rare glimpse into the mystery of that which is observed. Most people only look at a flash of lightning; they see nothing of its miraculous nature. While no one knows what it is, there have been a few who see beyond what meets the eye; they have seen enough to generate and harness electricity to our use. This kind of seeing – insight – occurs only in the rarest of moments.

Many of us look at a sunset and are overcome by its beauty. How few of us, even today, perceive that the sun does not set? Many see no more than was seen by the first man on earth. How many, before or since Copernicus, have understood that the setting of the sun is an illusion, rather that the earth is rotating? Rare moments, indeed.

Another example of a rare moment: Ever since man first set foot in Switzerland, that majestic mountain, the Jungfrau, has ranked high among the beauties of nature, truly worth looking at. People by untold thousands have stood at its base looking up in awe. Around the turn of the century an entrepreneur had a vision, a moment of seeing: Why not multiply what's worth looking at? Make it possible for the thousands to go atop the Jungfrau that they might see the beauty from that vantage point! Some twelve miles of tunnel was bored through the rock, a cog railroad installed, and a wonderful hostelry built within the mountain near the top. Private enterprise! No government subsidy! Just one of those rare moments of seeing which is more in evidence when man is free and self-responsible.

Near the top of the list of things thought to be worth looking at is wealth – material affluence. The aggregate of the moments spent in seeking wealth staggers the imagination. But note how rare the moments when individuals are capable of seeing the preconditions for gaining affluence, a society of free and self-responsible individuals with

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government limited to codifying and inhibiting destructive actions. If government thus performs, people are free to act creatively as they please. And there is no other way to material well-being.

Not seeing for themselves, the masses listen to false prophets, persons who promise that we can spend ourselves rich, that prosperity derives from dictatorial control over wages, hours of labor, exchanges, prices, and so on. They hear the promises but cannot foresee the consequences of the methods to be used. Wrote Ralph Barton Perry: "Ignorance deprives men of freedom because they do not know what alternatives there are." An affluent society cannot prevail unless individuals see that their economic well-being stems from the general practice of the principles of private ownership, the free market, and limited government.

In Search of Power

Perhaps the power to run the lives of others tops the list of things a majority believe to be worth looking at. Rare, indeed, are the moments when these individuals are capable of seeing the futility of their way. Were I the wisest philosopher or politician who ever lived, there is not one of these meddlers who believes I could run his life better than he. But he, unwise, has no doubt about his powers to run your life and mine. Why unwise? The very first step in wisdom is an awareness of how little one knows. Nor do such people see that power corrupts them!

Most of us doubtless have the potential to see ever so much more than we customarily perceive. We rarely see more than we wish to see. As unique individuals, we tend to specialize, to focus on the details from a particular point of view. Such focusing gives us more intimate knowledge of the tree, the trunk, the root, the twig, the leaf, the miracle within the single cell. I have my special interest, you yours, things we see more clearly, while neglecting many other possible vistas. The danger of too narrow a specialization is that we can't see the forest for the trees.

The "forest" worth looking at which most intrigues me is a viable society, one featured by harmonious relationships, one in which the individual may proceed, unobstructed by others, toward a realization of his creative aptitudes and potentialities. If a person fails to overcome his own obstacles — frustrations, superstitions, imperfections, ignorance, no will to strive — that's his problem. But if the obstacles are put there

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by others – if the individual is compelled to live as others dictate – that is everyone's problem. Freedom is everyone's business!

We Need Freedom Because We Are Interdependent

Why is freedom everyone's business? It is because my freedom depends on yours and vice versa. There is but faint appreciation of the high degree of specialization in contemporary society, of how dependent each of us is on the others. In short, we are now interdependent beyond recall; there is no turning back. This is to say that we, in our age, are at once *social* and individualistic beings. And if we fail or refuse to recognize this fact, all will fall together.

Of course, the individualistic side of this coin – being one's best self – is a problem of the first magnitude. Each of us must wrestle with this personally. Many, I suspect, see this. It is the social side of the coin they fail to see. How can ordinary mortals, such as you and I, fulfill this aspect of life? The formula is simple. Never do unto others that which you would not have them do unto you. If you wouldn't have others control your life, then never try to control anyone else. If you wouldn't have others hinder you from producing, freely exchanging, owning the fruits of your own labor, competing, traveling, then don't inhibit these practices among your fellowmen. This is all one has to do to fulfill his role as a social being. Merely heed the oldest, wisest, and simplest maxim ever written!

Finally, is there a prescription for removing our blindfolds? Is there a mode of conduct or discipline which would open up new vistas, permitting you and me to see more than we now do? I am just beginning to see that the answer is *integrity*.

For years, I have been defining integrity as the accurate reflection in *word* and *deed* of whatever one's highest conscience dictates as right. This may not in fact be right but it is as close to righteousness as one can get.

My definition stands; but I see now that my preachments – words – have been better arranged than my practice – deeds. It is my practice of integrity that must be improved.

To illustrate this failing on my part: I have written that each of us should await discovery, that if there is anything in our garden worth looking at, it will be detected by others.[1] Do I heed this?

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[1] See the chapter, "Await Discovery," in *Having My Way* (Irvington-on-Hudson, N. Y.: Foundation for Economic Education, Inc., 1974) pp. 40-44.

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Only with the greatest difficulty! Impatience tends to govern me, more or less. I can hardly wait till others find out how good I think I am at this or that. This nagging urge is a common trait and accounts, in no small measure, for the urge to reform that plagues humanity. Out of such a garden grows nothing but weeds. When I cannot believe and abide by my own admonitions, am I to expect better of others! Seeing and doing must become one and the same. To see the right without doing it is to live without integrity.

How Integrity Helps

Why is it that integrity removes the blindfolds, improves seeing? Some of the reasons are apparent.

I repeat, while one's accurate reflections in word and deed may not in fact be truth, they are as close to truth as one can get. Even though we err, our devotion to integrity leads toward that which is right; this is the only road to truth.

Those truth seekers who practice integrity themselves are drawn to integrity in others. This virtue has a magnetic quality. Are not the persons to whom you listen those who manifest integrity?

When others are being drawn toward your honest reflections, your light tends to brighten. Their attention is an encouragement, a stimulant, to put your best foot forward. In a word, integrity works its attractions back and forth among us; and the rare moment becomes a more common experience. Wrote Charles Simmons:

> Integrity is the first step to true greatness. Men love to praise [it], but are slow to practice it. To maintain it in high places costs self-denial; in all places it is liable to opposition; but its end is glorious, and the universe will yet do it homage.

IDEAS ON LIBERTY

To Find Meaning

SUCH MEANING as there is to life on this earth is found in tending our own plot of ground, in tasting the fruits of our own labors, in developing our own skills and perceptions, in sharing with others freely, in doing that which is appropriate to our talents, in striving to fulfill our ideals for ourselves, in the pleasure of a job well done, in the company of friends we have chosen and who have chosen us, in bringing up our own children, in short, in sitting under our own vine and fig tree.

CLARENCE B. CARSON
The Flight From Reality

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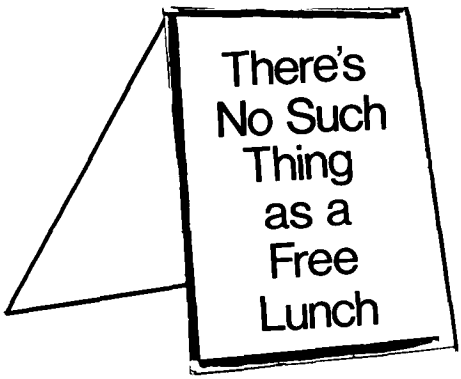

EARL L. BUTZ

IN THE OLD DAYS the king called in his three wise men to tell them he'd become interested in economics. "But," he said, "it sounds confusing and complicated. I want you to go out and boil it down for me in a way that I can understand."

Nine months later they came back and reported they had completed the job. They said they had condensed all of economics into a single book of 200 pages. The king said, "That's too long. I don't have time to read that much."

He had the chairman beheaded, and told the other two: "Now I want it boiled down."

They came back in 30 days and said they had economics boiled down into a single chapter of 20 pages. The king said, "That's too long. I don't have time for it."

He had the chairman beheaded, and turned to the remaining wise man: "You know your job. Now, boil it down."

"Yes sir, Mr. King!"

This wise man came back in three days: "Mr. King, I think I have it. I have boiled down the entire subject of economics into a single sentence of eight words."

The king said, "That's fine. I have time for that. What is it?"

"There's no such thing as a free lunch."

I tell that story because I think those eight words sum it up pretty well. Economics is a description of what you and I, and others like us, do in order to get our share of the things that are in the real life around us.

Unfortunately, there are a lot

Dr. Earl L. Butz is Secretary of Agriculture of the United States. This article is reprinted by permission from the March 1974 issue of *The American Farmer*. Copyright American Farm Bureau Federation, 1974. All rights reserved.

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of people around – you know them and I know them – who think that there *is* such a thing as a free lunch.

Take the role of the Federal government – Uncle Sam, if you will. Some people look on him as a kind, benevolent old gentleman who hands out free gifts. They look on him as a child might look at a grandfather.

Take most any state or local project. If there's work or money involved, it's easy to say: "Let's have the Federal government do it." You see this happening all the time. Maybe it's a new courthouse in the county seat, or a sewage plant, or just one of many things: "Let Washington do it."

There's only one way the government can do anything – that's with your money. The government is not a form of voluntary giving; it is a form of compulsory giving. You lose your home or your land if you don't pay your taxes. There's nothing benevolent about old Uncle Sam when it comes to you paying the tax bill. *There's no such thing as a free lunch.*

The next time you see a headline saying that the Congress has voted a $1 billion project, just figure that on the average this is about $5 out of your pocket and out of the pocket of every other member of your family.

"But," somebody says, "we're just talking about our own little community project. If we don't get that Federal money, somebody else will use the money. This project costs only a few thousand dollars. That's a drop in the bucket compared with what the Federal government spends on other things."

You've heard that, or something like that, many times, I'm sure.

Fact is, most everything the government does is, of itself, a drop in the bucket. However, when you add up all the little drops, it makes quite a bucketful. And the bucket is spilling over.

We're already spending about 34 per cent of our gross national product for government – Federal, state or local. That means that we have given to the government one-third of the decision-making power over how our money is spent.

A Drop at a Time Builds to a Flood

There are many things that we want and need to have the government do. The problem develops when it seems so painless and easy to add "just one more." That's how we got the 34 per cent – by adding "just one more." We have direct control over the dollars that we spend individually; however, we lose direct control over our dollars when we pay them out as taxes. The control then becomes diffused and political and hard for

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any one of us as an individual to do very much about.

If you don't think so, pick up the newspaper almost any day. Chances are you can read one to several stories about this or that proposal to launch a government project of some kind. Each one is a proposal to spend more of your money. Some are worthy causes, but how much "say" do you have in deciding whether you want to pay more for each of these projects?

The farther away from your local government the decision gets, the harder it is for you to exercise control. That's why the Federal budget has been balanced only *4 of the past 20 years*. That's why inflation is eating us up. That's why we ought to reverse the trend in this country and return more government to local decision-making. That's why we should ask about every public project, "Is it worth what it costs if we had to pay for it directly?"

Even then there are problems. If your local government is making a capital improvement of some kind, you'll probably find you can't save tax dollars in the budget ahead of time and pay cash. You'll probably have to borrow, float bonds, build up a debt and pay for the project twice through interest payments. *There's no such thing as a free lunch.*

When the Rich Are Gone

All right, but we run out of the rich pretty quick. The great bulk of the tax load comes out of the pockets of ordinary people. There's no other way. If we held every rich guy by his heels and shook out all his money, it would still be a drop in the bucket.

Tax the corporations? When you tax them, they have to get the money somewhere, since it is strictly illegal for them to manufacture money. When the corporation is taxed, the corporation tacks the cost onto the price of the article you buy. When you buy Corporation X,Y,Z's handy dandy little gizmo, you pay the corporation's tax.

A corporation, then, is a tax collection agent for Uncle Sam. That kind, benevolent old gentleman is a wily old cuss who has his hand in your pocket in a way and at times when you don't suspect it. *There's no such thing as a free lunch.*

Take ceilings on prices. We've heard a lot about them in the last few months. Inflation has been chasing prices of many things up the trees. It happened on food last summer. Housewives not only complained; some of them became activists and picketed. They demanded that "something be done."

Well, the government is also a listening post. When somebody in

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political office hears the chant loud and clear from back home, he figures he'd better do something or he won't be around to hear the chant the next time. The urge for personal survival in Washington is a powerful instinct. It's the primary political instinct, you might say.

Last summer, in response to the cry from back home, controls were put on food. All of a sudden, the market was telling farmers not to produce as much. The market after all is nothing more than a sounding board for the desires of people. You might call it an echo chamber. Each day people all around the country, by spending their money, say, "I want more of that." The price goes up. Or they say, "I want less of that." The price comes down.

Each person, including you and me, whispers something to the market each time we make even a little decision about how we spend our money. Those little whispers, billions of them a day, echo back from the market echo chamber. It shouts back that nationally we want more of this, or more of that, or less of it.

Stock markets reverberate. Corporations shake. The little store down at the corner quivers. All before the loud echo of those billions of little decisions that we make every day.

Let's say the market thunders that it wants more of something—the price goes up. But the housewife fusses that "It's already too high priced." So the government puts on a ceiling. Well, that doesn't make any more of the product. We go right on making all those little decisions, each of us, that put the price up in the first place. Now that the price isn't going up any more, as a result of the ceiling, we buy even more of it.

Pretty soon, there's not enough to go around. We keep right on buying—but the fellow who makes it is getting a wrong signal. The market is telling him not to produce as much. The price isn't attractive any more. His costs keep climbing, but the price for what he makes doesn't. So he quits. Or his banker makes him quit. There is less of the product around.

Controls Substitute Ration Stamps for Money

There's only one thing you can do then—ration the product with ration stamps. If you don't, there won't be any of it down at the store when you get there. People don't like that. What good is a controlled price if the product isn't there to buy?

What controls do is substitute government ration stamps for our dollar bill ration stamps. Instead of you and me setting the price by

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our own decisions with the way we spend our dollar bills, we let the government make the decisions by parceling out ration stamps to us – so many for each one of us. The same for each. That's the bureaucratic way of being fair.

So controls, then, which set out to do us a favor, end up discouraging production, instead of encouraging it. The ration stamp cure for the disease of low supply makes more of the disease by discouraging production. *There's no such thing as a free lunch.*

Another common principle is that most everything has a cost-benefit ratio to it. The item has a benefit, or we don't want it. And it has a cost, or we can't get it. That's the way it is with anything where there isn't enough to go around.

You can walk out and look at the moon. It's pretty on a clear, crisp night, and you can take in all of the scene you want to; it doesn't cost you a cent. Unless maybe you wear glasses, which I do. Then even looking at the moon isn't free.

The point is, if something is scarce, and practically everything is, it has a cost. Whether you pay that cost or not depends on how you look at the benefit and whether you have the money to pay.

Most everything has a cost-benefit ratio. You can't escape it. Are we going to have completely clear air and not enough energy? Are we going to poison coyotes – and maybe some birds while we're at it – and have enough wool and lamb; or are we going to listen to the howl of more coyotes at the cost of less lamb?

Are we going to feed DES to cattle and perhaps have a residue in some beef livers in an infinitesimal amount which has never been known to harm anyone's health; or are we going to avoid even one particle of DES per trillion in beef liver and pay more for beef, since it costs more to raise it without DES?

Are we going to disrupt a narrow strip of tundra and disturb some wildlife in remote parts of Alaska, while tapping the rich oil supplies there, or are we going to have gas rationing? Are we going to have well-planned forest harvests and reforestation, or are we going to look at the undisturbed wilderness and hoard resources? For every benefit, there is an offsetting cost.

There's no such thing as a free lunch!

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YIELDING to Temptation

JOHN C. SPARKS

This letter to a close friend, the author's pastor, clearly concerns all of us.

IN MORE than one of the discussions in your adult church-school classes and in your sermon "talkbacks," you have strongly maintained that the church should be in the middle of whatever important is going on in the world. I have not disagreed. Perhaps the only question or doubt in my mind concerns the capability of certain church spokesmen to speak out logically, rather than emotionally, on secular issues. However, this is a general criticism. In you, I have confidence.

It seems logical to me that you would want to unmask the immorality and dishonesty of an evil that has long existed and is widely practiced today. Yet, it is of a kind that is easy to overlook or misunderstand. My concern here is with one of the fundamental rules of mankind — moral and religious — the admonishment against stealing. Hardly anyone disputes the evil in unlawfully taking property owned by another. Theft at gunpoint or the burglarizing of a home is wrong; and few persons, professional churchmen or others, would try to rationalize such acts into moral or religious acceptability. This is not the stealing to which I refer.

There is another method of taking property owned by someone else that is strenuously debated among political theorists. It is felt by a great number of people that property can be taken lawfully, via the democratic process of majority rule, and that this method does not violate either moral or religious principle. On one point, most theorists seem to agree: that the property, either stolen, or redistributed via majority rule — whichever the point of view — is identifiable, and the act is perpetrated openly in accordance with printed tax law widely dispersed and available to everyone. It is no secret that personal income tax rates are steeply progressive. Even though

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I disagree with such "redistribution of private property" and would wish that clergymen everywhere would perceive the moral error, this kind of appropriation of property is not my subject here.

The special kind of stealing that is the deep concern of this letter, a form of theft for which no politician wants to assume responsibility, is inflation.

Inflation is a process by which the Federal government increases the quantity of paper money so that it may pay out or spend more than it receives in revenue. Citizens expect the Federal government to maintain the integrity of the monetary unit, but history reveals how difficult it is for the controlling politicians of this or any other nation to resist the temptation to buy votes. They recognize that votes place them in office and votes keep them there.

One way to be popular and to win votes is to pass out benefits to people. But benefits have to be paid for, either by taxing the people or by printing paper money (inflating the currency). Taxation is not considered a good way to win popularity or votes. Consequently, politicians seem to prefer inflation rather than direct taxation as their source of revenue.

Then, to compound their dishonesty, they point to others as scapegoats. They would have the people believe that farmers, merchants, manufacturers, doctors, hospitals, colleges and all other sellers of products and services are "profiteering"—just as though, at a given signal, people everywhere in all fields of economic activity decided to hike prices. This, of course, is sheer nonsense! Counterfeiting may be a universal temptation, but government alone has the motive, *and the power,* to arbitrarily expand the money supply. When the printing presses double the money supply, it follows as night follows day, that prices will tend to double.

The Federal government is the culprit, and the enormity of the "crime" – if measured either in dollars, number of participants, or harm done – makes the scandals of Watergate, special privileges, and tax avoidance and evasions look like penny-ante affairs. Anyone can measure the dilution of his personal purchasing power by comparing current prices with those paid ten years ago. Yet, no one can measure exactly how much has been confiscated by inflation – the innumerable errors in judgment, malinvestments, wasting of resources and other unwise decisions. The total loss or waste has to be enormous when we consider the disruption of economic signals, destruction of the intent of contracts, misunderstanding of historical statistics so badly needed

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for intelligent decisions, the misleading of individuals and companies into inappropriate investments and capital expenditures that seriously harm the very structure of our working lives.

Of all the harmful results of inflation, probably the most deplorable is the wiping out of lifetime savings of people as they approach retirement. Their savings are as surely stolen by the inflationary activities of politicians as by anyone who might have burglarized their safe-deposit boxes. A doubling of prices tends to cut the value of savings in half, and each subsequent doubling halves what value is left. Thus have the politicians of some other countries in this century wiped out all savings of the elderly in those countries.

The act of inflating is despicable and dishonest, and the politicians who alone perform the act deserve the finger of scorn. Some may say that inflation is only an economic problem – not a moral problem. That would be like saying that the theft of Widow Jones' cow, or her safe-deposit box, is only an economic problem. It is that certainly, but the focal point of the problem is the immorality of stealing and its effect on the helpless victims.

Now, back to your contention that you and the church should be in the midst of whatever goes on in the world. Inflation is a universal evil that needs repetitive airing from pulpits throughout America. I hope you will give it the thought and action it deserves.

No More Repeat Performances

BERNARD H. SIEGAN

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Mr. Siegan is the author of *Land Use Without Zoning* and many articles on the subject. He practiced law for 20 years in Chicago before moving in 1973 to La Jolla, California, where he is an adjunct professor of law at the University of San Diego Law School.

IF THE SUBSTANCE is the same, changing the brand will not alter the effect, whether it involves cold remedies, cleaning agents, or zoning regulations. That, in essence, is the answer to most new schemes presently being proposed to solve the problems of zoning. They are fundamentally the same, except

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only for those seeking the end of zoning.

Many persons, of seemingly good intentions, are hotly in pursuit of that certain special zoning system that will remove the errors and evils of the existing one. Just about everyone with any knowledge of the subject will readily acknowledge that zoning has been largely a failure and something should be done. Still, despite the strong and vehement attacks on zoning by planners, lawyers, and writers, they usually reject scrapping it, insisting instead upon some new variety of regulation. The schemes differ in name and form, but not in substance, for the prime ingredient is government control.

Impact zoning, performance zoning, incentive zoning, zoning for quality, balanced community zoning, ecologically sensitive zoning, are some of the titles. And there are more. Under each, there would supposedly be better and sounder planning, more and better housing, more open space and environmental protection, and so forth and so on, all basically a repetition of representations made in the past in support of zoning, and with the same probability of success.

What the new schemes ignore is that the existence of government controls largely accounts for the problems. The same group of planners and politicians that have so dismally performed in the past are scarcely entitled to a repeat performance. Failure should not be rewarded. Politics and political expediency would remain the controlling factors, and that spells no change whatsoever.

The terms and intent of a law are not really as important as how it is applied – and often intention and application differ radically. When a certain zoning law clearly states one thing, and fifty screaming constituents insist it should be interpreted or applied differently, the politicians who must decide are certainly placed in a dilemma. After long years of personal experience, I submit that many if not most politicians will do what is in their own best interest; and if that is contrary to the law, so be it. I do not doubt that many would vote the earth is flat if that were politically expedient. Watergate is neither the first nor last time politicians and officeholders will engage in moral or legal corruption.

Nor does the judicial process offer adequate relief. In some states such as California, the judges rarely overturn municipal zoning decisions. Regardless of a state's laws, however, any potential plaintiff must have considerable funds and be prepared for a long strug-

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gle with a municipality that may, in good or bad conscience, carry the case to the highest appellate level.

Years of litigation may be involved, during which the property cannot be used for the purpose desired. But the expenses of ownership continue. Taxes, constantly rising, must be paid. And, with the current cost of money, interest payments, especially on vacant land, can be quite substantial. Consequently, even when the facts are highly favorable, the largest or most affluent developers may not find such litigation to be a reasonable business risk.

The only meaningful change is to eliminate zoning and rely on the effective and efficient forces of the market place to control the use and development of land and property. There will be difficulties and inequities, but far fewer than presently exist, and many such situations can be met with a limited number of specific laws directed at specific problems such as, for example, a parking ordinance. The example of non-zoned Houston is available for all to observe and study the results of a different and remarkably successful approach to the regulation of land use.

This is also a timely moment to look at the difference between a regulated and a non-regulated market. President Nixon imposed wage and price controls in August 1971 in response to a virtual groundswell of opinion demanding that action. Today, less than three years later, whatever groundswell there exists is for a reverse course. The folly and disaster of controls in that area have been fully demonstrated.

The follies of zoning are much less dramatic; they do not make the nightly TV news and are not experienced daily at the supermart. But they are well documented in the literature, even by those favorable to the concept. Within recent years, almost every major law journal in the country has published an article highly critical of zoning practices. The Harvard and Yale journals have contained pieces contending that all or most of zoning is unconstitutional.

It is difficult to find a stronger indictment than the report made in 1968 by the professional organization of planners, the American Society of Planning Officials (ASPO), to the Presidential Commission on Urban Problems. Conclusions reached in turn by that commission as well as those of two other Presidential and several state commissions were equally devastating to zoning practices.

Only the termination of zoning will remove these problems.

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We Don't Know How

WILLIAM AND ELIZABETH PADDOCK have written a sockdolager of a book in *We Don't Know How: An Independent Audit of What They Call Success in Foreign Assistance* (Iowa State University Press, $9.95 cloth; $4.95 paper). What it proves, with on-the-spot evidence gathered often with feelings of great reluctance about hurting well-meaning idealists, is that our foreign aid program has been largely a bust, bringing virtually no permanent improvement to anybody. It might be an overstatement to say that $150 billion have gone down the drain since the U.S. started to shore up what is euphemistically called the free world, but surely, on the basis of what the Paddocks have learned by the most careful sort of digging, the money would have done everybody much more good if it had been left in the pockets of Americans at home to buy bananas, coffee, oil, rubber or whatever else the "undeveloped" countries have to sell.

William Paddock and his wife make a team. They are both B.S.'s from Iowa State University, which means that they have farming in their bones. An authority on corn, William once headed Guatemala's corn improvement program, working with the U.S. mission in Guatemala itself with interludes at an Iowa State University experiment station. His wife, a home economics instructor, spent some time as a Care volunteer distributing food in rural Honduras and as a ghetto social service worker in Guatemala. They knew something of the world of foreign aid from the inside before they started a 25,000-mile trip through Mexico

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and Central America to inspect programs which the administrators of development organizations considered especially effective. In the course of a year of wandering in the field away from capital cities in Guatemala, Honduras, Salvador and Mexico, the Paddocks not only held more than two hundred prearranged interviews but also talked with everybody they ran across, from government officials and merchants to peasants, doctors, lawyers and Indian chiefs.

What they took in through their eyes and ears startled them. Once in a while they hit upon a development that had had effective results, but when some actual good resulted it was usually in a quite unforeseen way. Normally, however, the projects, whether they were undergirded by the Peace Corps, the Inter-American Development Bank, AID (the Agency for International Development), or even the Rockefeller Foundation, suffered from a lack of carry-through, inability to preserve meaningful records, and a tunnel vision that would disgrace a mole.

The Rubber Fiasco

It was at Los Brillantes, a "model" station near Chocola in Guatemala, that the Paddocks first learned about the pattern of foreign aid. The Paddocks knew from a previous stay in Guatemala that rubber seedlings had been distributed to the Chocola area farmers over a five-year period. Some 27,000 acres had been planted to rubber. But, to the Paddocks' amazement, the whole project had trailed off into nothing. The reason: no continuity. The farmers, so the lone remaining U.S. expert told the Paddocks, were only interested in planting rubber as long as AID provided money on easy terms. When the original loans were used up (one farmer received $884,000), the project went dead. What the Paddocks couldn't figure out was why the news of the collapse of the rubber experiment hadn't yet reached AID headquarters in Washington.

Thirty minutes down the road from the scene of the rubber fiasco the Paddocks visited some beautiful buildings at Chocola which had once housed the local directors of the U.S. International Cooperation Administration, AID's predecessor. The chairs, typewriters, desk and furniture were still there, but human activity had apparently ceased. Chocola, so the Paddocks surmised, was another illustration of the big tragic shortcoming in our development work. AID had no memory of what its predecessor agency had done. The law of politics is that whenever there is a new foreign aid program, or a new set of admin-

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istrators, the old slate is wiped clean. A long-time AID friend told the Paddocks, "Every morning we wake up and laboriously reinvent the wheel."

Saving the Seed Corn

So it went in other areas in Guatemala. Deane Hinton, a U.S. AID mission director stationed at the Embassy, told the Paddocks that the local agricultural school at Barcenas had the most effective AID program in the country. The Paddocks went and had a look. In the meantime Deane Hinton moved on to Santiago in Chile to head up a different program. Mr. Paddock didn't have the heart to write him that he had found Iowa corn seed sitting in a storeroom at the Barcenas experiment station where it had been put in storage ten years ago. A faithful Guatemalan was keeping the seed collection intact, "just in case someday someone wants to use it."

In Washington Jack Hood Vaughn, Sargent Shriver's successor as head of the Peace Corps, told Mr. Paddock about the legendary exploits of one James Portman in El Salvador. Portman, according to the reports, had revolutionized the little nation's tomato industry. He had shown the farmers how to mulch their rows for moisture conservation. He had introduced contour terracing. He had started tomato, pineapple, watermelon and banana clubs. He had showed the girls how to can pickles. He had given haircuts to demonstrate a sure way of discouraging lice. But when the Paddocks visited the scene of Portman's supposed triumphs, they found no evidence of a tomato industry. A few townspeople did recall that Portman had planted some tomatoes in a church garden, and had had a second garden elsewhere. He had used cow dung as fertilizer. But when a storekeeper asked Portman how to get rid of insects that were devouring his tomatoes on the stem, Portman had said he "did not know anything about tomatoes, only corn."

In checking the whole thing out, the Paddocks learned that Portman was liked in El Salvador because he was "young and attractive." But Portman himself had written: "Do not believe everything you read about James J. Portman and El Salvador. R. Sargent Shriver in the early days was a little too eager as far as public relations were concerned."

Some Good Results

The Paddocks did find good things on their 25,000-mile trip. They found a boom in Monterrey. The reason: three local families had made good use of their cap-

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ital, amassed out of a transport business that had made good connections with the railroad to Texas. At San Pedro, in Honduras, there was prosperity. The reason: the United Fruit Company paid an average daily wage of $4.97, which stimulated worker training in the whole area. United Fruit is called El Pulpo, meaning the Octopus, but it does know how to grow bananas. The company brings in thirty-five per cent of Honduras's foreign exchange, so, as the Paddocks put it, "one-third of Honduras's share of the twentieth century is paid for by company activity."

If El Pulpo had been broken up into small plots when the first winds of "land reform" began to blow, who would have heard of San Pedro, or even of Honduras itself? The Paddocks tremble to think of it.

The Paddocks looked into the Rockefeller Foundation, which has sustained Dr. Norman Borlaug's experiments with rust-resistant wheat in northwest Mexico. This wheat, along with "miracle" rice, is credited with setting the so-called Green Revolution in motion. The Paddocks give Borlaug's plant research good marks, but they give even better marks to the Mexicans for learning how to apply irrigation and fertilizer to their wheat acres.

The "green revolution" is undeniably worth having, but the Paddocks worry about its advantages being eaten up by rocketing population growth. They sadly conclude that it will take a lot of El Pulpos to support the new millions that continue to encroach on the limits of the food supply all through Mexico and Central America. What is particularly ominous is that El Pulpos, being capitalist in organization and motivation, aren't liked. The masses, bemused, don't know their best friends.

▸ LEFTISM (FROM DE SADE AND MARX TO HITLER AND MARCUSE) by Erik von Kuehnelt-Leddihn (New Rochelle, N.Y.: Arlington House, 1974, 653 pp., $12.95)

Reviewed by Allan C. Brownfeld

THE TEACHERS of political science used to tell their classes that political philosophies ran along a straight line from left to right, that Nazism and Fascism occupied the far right portion of the spectrum and Communism the far left.

Happily, most teachers of political science have finally moved away from that simplistic, and false, notion. As for the rest, a reading of the recently published

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volume, *Leftism (From de Sade and Marx to Hitler and Marcuse)* by Erik von Kuehnelt-Leddihn, should – as the common phrase of the day has it – expand their consciousness.

Dr. Kuehnelt-Leddihn is an Austrian scholar who reads twenty languages and has taught at many universities, including Beaumont College in England, the Georgetown Graduate School of Foreign Service, and who, during the period when the Nazis occupied his country, was head of the History Department at St. Peter's College in New Jersey. His book is lengthy and learned, but not beyond the general reader's comprehension.

What he has done in this volume is range across the centuries to show the links between the perversion of de Sade, the revolutionary mystique of Marcuse and the brutalities of Stalin, Hitler, and Mao. The purpose of the book, writes the author, "is to show the character of leftism and to what extent and in what way the vast majority of the leftist ideologies now dominating or threatening most of the modern world are competitors, not enemies."

He makes a powerful case, for example, that Hitlerism was a movement of the left, not the right. "At heart Mussolini was always a socialist," he writes. "Hitler, on the other hand, had never formally belonged to the Socialist Party, although he had drunk from almost the same ideological sources. His *Weltanschauung* too had been largely fathered by the image of the national socialist laborites." He notes that official utterances declared that Nazism stood firmly on the left, and reveals Hitler's "genuinely leftist turn of mind," showing that the economic order under the Nazis was thoroughly socialistic, and reminds the reader that besides the Jews, the groups most hated by the Nazi leaders were royalty and nobility.

The difference between the "left" and the "right" is essentially related to their divergent views of the nature of man and the state. It is a common characteristic of the left – socialists (national and international), as well as more moderate welfare-staters and 20th century liberals, according to the author, to view man as "Individual subject to the will of the majority. He is a mere number of the democratic process who can be added or subtracted. He is embodied and personified by the "leader" or by a delegate. The individual is nothing, the 'People' everything. The individual is a mere fragment of the 'collective masses'." Those on the right, to the contrary, view man as "A per-

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son with an intransferable destiny, unique, created in the image of God . . . endowed with an immortal soul."

More simply put, the left views man as a means to some other end, the right views man as an end in himself. All leftist ideas, from the most extreme to the more moderate, reject individualism and urge collectivism.

What the left has done since its modern creation at the time of the French Revolution is, writes Dr. Kuehnelt-Leddihn, to exploit "the envy . . . among the masses, coupled with the denigration of individuals, but more frequently of classes, races, nations or religious communities. . . . The history of the Western world since the end of the 18th century cannot be written without this fact constantly in mind. All leftist 'isms' harp on this theme, i.e., on the privilege of groups, minority groups, to be sure, who are objects of envy and at the same time subjects of intellectual-moral inferiorities. . . . They ought to conform to the rest, become identical with 'the people,' renounce their privileges . . ."

Such forced conformity has taken different forms. Hitler killed Jews. Stalin killed landlords. The French Revolutionaries insisted that all Frenchmen have a common language and the Jacobin clubs began a crusade against all languages but French – Provencal, Breton, German, Flemish, Basque. "We get a hint," writes the author, "that the French Revolution was not only a forerunner but an ideological steppingstone to the slow growth of Nazi ideas."

The totalitarian attitude of the left is clearly found within the French Revolution. The speech of Saint-Just on October 10, 1793, for example: "You have to punish not only traitors, but even those who are indifferent: you have to punish whoever behaves in the Republic in a passive spirit and does nothing for her, because ever since the French people has manifested their will, everything outside of the sovereign is an enemy." Similarly, Robespierre spoke of "collective liberty" and on February 7, 1794, said that, "The Government of the Revolution is the despotism of liberty against tyranny."

Looking back at the Reign of Terror in France, at the Nazis, the Fascists and the Communists, the author declares that, "The all-powerful state is a creation of the leftist mentality . . . two wishes of the leftist find their fulfillment, the extension of government and the dependence of the person upon the state which controls his destiny from the cradle to the grave. Every movement of the

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citizen, his birth and his death, his marriage and his income, his illness and his education . . . everything is to be a matter of knowledge to the state."

All of these tyrannies, the author writes, have come about in the name of the collective "will of the people." He quotes Salvador de Madariaga who said that Western civilization rests on two deaths — the death of Socrates and the death of Christ. He notes that, "Indeed the crucifixion was also a democratic event. When Our Lord was brought before Pilate and told him that He had come as a witness to Truth, the governor, a true agnostic, asked Him, 'What is truth?' And without waiting for an answer, he passed Him by and consulted 'the people.' The *vox populi* condemned Our Lord to death as it had Socrates more than three centuries earlier."

What most Americans forget, Dr. Kuehnelt-Leddihn believes, is that democracy and freedom do not necessarily go hand in hand. Democracy rests on two pillars: majority rule and political equality. Freedom, however, has nothing to do with democracy itself. The repression of 49 per cent by 51 per cent or of 1 per cent by 99 per cent "is most regrettable, but it is not 'undemocratic'." Liberals, in the classical sense, correctly understood this point. Liberalism did not answer the question, as democracy does, "*Who* should rule?" but, "*How* should rule be exercised?" The reply is, "Regardless of *who* rules . . . government should be exercised in such a way that each citizen enjoys the greatest possible amount of liberty."

Dr. Kuehnelt-Leddihn believes that the U.S. Constitution was "a serious attempt to establish a mixed government with democratic, aristocratic, and monarchical elements, a government of checks and balances." He quotes a letter from John Adams in which he insisted that democracy would inevitably evolve into oligarchy and oligarchy into despotism, a notion he shared with Plato and Aristotle.

The fact is that tyranny came to Germany through the democratic process. By July, 1932, Dr. Kuehnelt-Leddihn notes, the two big totalitarian parties, the Nazis and the Communists, held 319 seats in the Reichstag out of 608 — an absolute majority which proves that more than half of all Germans emphatically rejected parliamentary democracy. This means that the democratic republic uncompromisingly demanded by Wilson was the basis of true slavery in Germany, the door through which tyranny entered.

Hitler declared that, "There is

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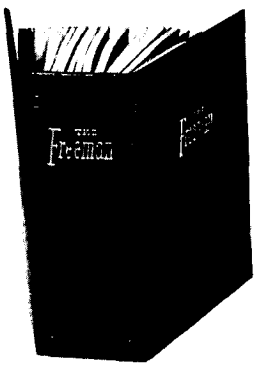
more that unites us than divides us from Bolshevism . . . above all the genuine revolutionary mentality. I was always aware of this and I have given the order that one should admit former Communists to the party immediately."

Goebbels had stated unequivocally that he "paid homage to the French Revolution for all the possibilities of life and development which it had brought to the people. In this sense, if you like, I am a democrat."

Dr. Kuehnelt-Leddhin understands that total power, whether in the hands of one man or a majority, is an evil and that freedom has always been lost as a result of it. The real business of those who seek to learn from the past is to diffuse power so that no matter *who* rules, individual freedom can be preserved.

The Western world, however, seems to be moving away from its traditional belief in individualism, and more and more looks to the state as the answer to all problems, making a false god of politics. For those who are interested in considering where a trip down that path will lead, this book will be a valuable road map.



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